

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 28, 2019

OR

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

Commission File Number: 000-25121



SLEEP NUMBER CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-1597886

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

1001 Third Avenue South

Minneapolis, Minnesota

(Address of principal executive offices)

55404

(Zip Code)

Registrant's telephone number, including area code: (763) 551-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	SNBR	Nasdaq Global Select Market

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES  NO

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of September 28, 2019, 28,427,000 shares of the Registrant's Common Stock were outstanding.

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES  
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**PART I: FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Condensed Consolidated Balance Sheets*  
(unaudited - in thousands, except per share amounts)

	September 28, 2019	December 29, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,545	\$ 1,612
Accounts receivable, net of allowance for doubtful accounts of \$753 and \$699, respectively	25,541	24,795
Inventories	86,508	84,882
Prepaid expenses	10,997	8,009
Other current assets	35,002	31,559
Total current assets	159,593	150,857
Non-current assets:		
Property and equipment, net	201,755	205,631
Operating lease right-of-use assets	321,048	—
Goodwill and intangible assets, net	73,772	75,407
Other non-current assets	46,154	38,243
Total assets	\$ 802,322	\$ 470,138
<b>Liabilities and Shareholders' Deficit</b>		
Current liabilities:		
Borrowings under revolving credit facility	\$ 213,700	\$ 199,600
Accounts payable	151,357	144,781
Customer prepayments	39,824	27,066
Accrued sales returns	23,833	19,907
Compensation and benefits	39,383	27,700
Taxes and withholding	24,699	18,380
Operating lease liabilities	57,912	—
Other current liabilities	52,361	51,234
Total current liabilities	603,069	488,668
Non-current liabilities:		
Deferred income taxes	3,927	4,822
Operating lease liabilities	293,333	—
Other non-current liabilities	66,480	86,198
Total liabilities	966,809	579,688
Shareholders' deficit:		
Undesignated preferred stock; 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value; 142,500 shares authorized, 28,427 and 30,868 shares issued and outstanding, respectively	284	309
Additional paid-in capital	—	—
Accumulated deficit	(164,771)	(109,859)
Total shareholders' deficit	(164,487)	(109,550)
Total liabilities and shareholders' deficit	\$ 802,322	\$ 470,138

See accompanying notes to condensed consolidated financial statements.

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Condensed Consolidated Statements of Operations*  
(unaudited - in thousands, except per share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 28, 2019</b>	<b>September 29, 2018</b>	<b>September 28, 2019</b>	<b>September 29, 2018</b>
Net sales	\$ 474,778	\$ 414,779	\$ 1,257,186	\$ 1,119,750
Cost of sales	178,388	164,262	481,377	442,868
Gross profit	<u>296,390</u>	<u>250,517</u>	<u>775,809</u>	<u>676,882</u>
<b>Operating expenses:</b>				
Sales and marketing	213,133	188,458	568,799	511,481
General and administrative	35,098	29,385	102,466	89,947
Research and development	9,007	7,353	25,440	21,146
Total operating expenses	<u>257,238</u>	<u>225,196</u>	<u>696,705</u>	<u>622,574</u>
Operating income	39,152	25,321	79,104	54,308
Interest expense, net	3,131	1,836	8,968	3,814
Income before income taxes	36,021	23,485	70,136	50,494
Income tax expense	7,967	5,228	12,384	7,945
Net income	<u>\$ 28,054</u>	<u>\$ 18,257</u>	<u>\$ 57,752</u>	<u>\$ 42,549</u>
<b>Basic net income per share:</b>				
Net income per share – basic	<u>\$ 0.96</u>	<u>\$ 0.53</u>	<u>\$ 1.93</u>	<u>\$ 1.18</u>
Weighted-average shares – basic	<u>29,085</u>	<u>34,231</u>	<u>29,859</u>	<u>36,204</u>
<b>Diluted net income per share:</b>				
Net income per share – diluted	<u>\$ 0.94</u>	<u>\$ 0.52</u>	<u>\$ 1.88</u>	<u>\$ 1.15</u>
Weighted-average shares – diluted	<u>29,796</u>	<u>35,039</u>	<u>30,688</u>	<u>37,077</u>

See accompanying notes to condensed consolidated financial statements.

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Condensed Consolidated Statements of Shareholders' (Deficit) Equity*  
(unaudited - in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at December 29, 2018	30,868	\$ 309	\$ —	\$ (109,859)	\$ (109,550)
Net income	—	—	—	25,418	25,418
Exercise of common stock options	151	2	2,834	—	2,836
Stock-based compensation	364	3	3,635	—	3,638
Repurchases of common stock	(1,170)	(12)	(6,469)	(40,501)	(46,982)
Balance at March 30, 2019	30,213	\$ 302	\$ —	\$ (124,942)	\$ (124,640)
Net income	—	—	—	4,280	4,280
Exercise of common stock options	115	1	2,158	—	2,159
Stock-based compensation	99	1	4,249	—	4,250
Repurchases of common stock	(1,104)	(11)	(6,407)	(36,933)	(43,351)
Balance at June 29, 2019	29,323	\$ 293	\$ —	\$ (157,595)	\$ (157,302)
Net income	—	—	—	28,054	28,054
Exercise of common stock options	33	—	757	—	757
Stock-based compensation	10	—	4,146	—	4,146
Repurchases of common stock	(939)	(9)	(4,903)	(35,230)	(40,142)
Balance at September 28, 2019	28,427	\$ 284	\$ —	\$ (164,771)	\$ (164,487)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount			
Balance at December 30, 2017	38,813	\$ 388	\$ —	\$ 88,768	\$ 89,156
Net income	—	—	—	20,548	20,548
Exercise of common stock options	68	1	856	—	857
Stock-based compensation	211	2	3,082	—	3,084
Repurchases of common stock	(2,149)	(22)	(3,938)	(73,688)	(77,648)
Balance at March 31, 2018	36,943	\$ 369	\$ —	\$ 35,628	\$ 35,997
Net income	—	—	—	3,744	3,744
Exercise of common stock options	56	—	739	—	739
Stock-based compensation	43	1	3,657	—	3,658
Repurchases of common stock	(2,149)	(21)	(4,396)	(60,875)	(65,292)
Balance at June 30, 2018	34,893	\$ 349	\$ —	\$ (21,503)	\$ (21,154)
Net income	—	—	—	18,257	18,257
Exercise of common stock options	33	—	488	—	488
Stock-based compensation	7	—	3,356	—	3,356
Repurchases of common stock	(1,717)	(17)	(3,844)	(51,438)	(55,299)
Balance at September 29, 2018	33,216	\$ 332	\$ —	\$ (54,684)	\$ (54,352)

See accompanying notes to condensed consolidated financial statements.

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Condensed Consolidated Statements of Cash Flows*  
(unaudited - in thousands)

	<b>Nine Months Ended</b>	
	<b>September 28, 2019</b>	<b>September 29, 2018</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 57,752	\$ 42,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,267	46,655
Stock-based compensation	12,034	10,098
Net gain on disposals and impairments of assets	(409)	(17)
Deferred income taxes	(895)	7,263
Changes in operating assets and liabilities:		
Accounts receivable	(746)	(4,816)
Inventories	(1,626)	(6,682)
Income taxes	535	(13,777)
Prepaid expenses and other assets	(8,065)	5,195
Accounts payable	45,051	26,007
Customer prepayments	12,758	18,351
Accrued compensation and benefits	11,763	(2,685)
Other taxes and withholding	5,784	4,265
Other accruals and liabilities	9,629	2,044
Net cash provided by operating activities	<u>189,832</u>	<u>134,450</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(46,757)	(34,012)
Proceeds from sales of property and equipment	2,577	174
Net cash used in investing activities	<u>(44,180)</u>	<u>(33,838)</u>
<b>Cash flows from financing activities:</b>		
Repurchases of common stock	(139,178)	(198,239)
Net (decrease) increase in short-term borrowings	(11,270)	94,147
Proceeds from issuance of common stock	5,752	2,084
Debt issuance costs	(1,023)	(1,014)
Net cash used in financing activities	<u>(145,719)</u>	<u>(103,022)</u>
Net decrease in cash and cash equivalents	(67)	(2,410)
Cash and cash equivalents, at beginning of period	1,612	3,651
Cash and cash equivalents, at end of period	<u>\$ 1,545</u>	<u>\$ 1,241</u>

See accompanying notes to condensed consolidated financial statements.

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Notes to Condensed Consolidated Financial Statements*  
(unaudited)

**1. Business and Summary of Significant Accounting Policies**

*Business & Basis of Presentation*

We prepared the condensed consolidated financial statements as of and for the three and nine months ended September 28, 2019 of Sleep Number Corporation and our 100%-owned subsidiaries (Sleep Number or the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and they reflect, in the opinion of management, all normal recurring adjustments necessary to present fairly our financial position as of September 28, 2019 and December 29, 2018, and the consolidated results of operations and cash flows for the periods presented. Our historical and quarterly consolidated results of operations may not be indicative of the results that may be achieved for the full year or any future period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with our most recent audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 and other recent filings with the SEC.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of sales, expenses and income taxes during the reporting period. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in these estimates will be reflected in the consolidated financial statements in future periods. Our critical accounting policies consist of stock-based compensation, goodwill and indefinite-lived intangible assets, warranty liabilities and revenue recognition.

The condensed consolidated financial statements include the accounts of Sleep Number Corporation and our 100%-owned subsidiaries. All significant intra-entity balances and transactions have been eliminated in consolidation.

*New Accounting Pronouncements*

Recently Adopted Accounting Guidance

Effective December 30, 2018 (beginning of fiscal 2019), we adopted ASC Topic 842, *Leases*, using the modified-retrospective approach. We have chosen the effective date as the date of initial application and have applied the new guidance to all existing leases.

The new guidance establishes a right-of-use (ROU) model that requires us to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. We have elected the following practical expedients and accounting policies related to the adoption of the new lease standard:

- We did not reassess our prior conclusions about lease identification, lease classification and initial direct costs;
- We did not elect the use of hindsight;
- We adopted an accounting policy for short-term leases allowing us to not recognize ROU assets and lease liabilities for leases with a term of 12 months or less; and
- We elected the option to not separate lease and non-lease components for all of our leases.

In accordance with the new guidance on December 30, 2018, we recorded \$299 million of net operating lease ROU assets and \$327 million of operating lease liabilities (\$52 million recorded in current operating lease liabilities and \$275 million in non-current operating lease liabilities). Deferred rent and lease incentive liabilities associated with historical operating leases totaling \$28 million were reclassified to the operating lease ROU assets as required by ASC Topic 842. The adoption of the new guidance had no impact on accumulated deficit, net income or net cash provided by operating activities. At December 30, 2018, our finance ROU assets and lease liabilities were not significant.

See Note 6, *Leases*, for further information.

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Notes to Condensed Consolidated Financial Statements*  
(unaudited)

**2. Fair Value Measurements**

At September 28, 2019 and December 29, 2018, we had \$8 million and \$6 million, respectively, of debt and equity securities that fund our deferred compensation plan and are classified in other non-current assets. We also had corresponding deferred compensation plan liabilities of \$8 million and \$6 million at September 28, 2019 and December 29, 2018, respectively, which are included in other non-current liabilities. The majority of the debt and equity securities are Level 1 as they trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. Unrealized gains/(losses) on the debt and equity securities offset those associated with the corresponding deferred compensation plan liabilities.

**3. Inventories**

Inventories consisted of the following (in thousands):

	<b>September 28, 2019</b>	<b>December 29, 2018</b>
Raw materials	\$ 5,782	\$ 4,549
Work in progress	130	3
Finished goods	80,596	80,330
	<u>\$ 86,508</u>	<u>\$ 84,882</u>

**4. Goodwill and Intangible Assets, Net**

*Goodwill and Indefinite-Lived Intangible Assets*

Goodwill was \$64 million at September 28, 2019 and December 29, 2018. Indefinite-lived trade name/trademarks totaled \$1.4 million at September 28, 2019 and December 29, 2018.

*Definite-Lived Intangible Assets*

The gross carrying amount of our developed technologies was \$19 million at September 28, 2019 and December 29, 2018. Accumulated amortization was \$1 million and \$9 million at September 28, 2019 and December 29, 2018, respectively.

Amortization expense for both the three months ended September 28, 2019 and September 29, 2018, was \$0.5 million. Amortization expense for both the nine months ended September 28, 2019 and September 29, 2018 was \$1.6 million.

**5. Credit Agreement**

Our \$450 million credit facility is for general corporate purposes, to meet our seasonal working capital requirements and to repurchase our stock. The credit agreement provides the lenders with a collateral security interest in substantially all of our assets and those of our subsidiaries and requires us to comply with, among other things, a maximum leverage ratio (4.5x) and a minimum interest coverage ratio (3.0x). Under the terms of the credit agreement, we pay a variable rate of interest and a commitment fee based on our leverage ratio. The credit agreement includes an accordion feature which allows us to increase the amount of the credit facility from \$450 million to \$600 million, subject to lenders' approval. The credit agreement matures in February 2024. We were in compliance with all financial covenants as of September 28, 2019.

The following table summarizes our borrowings under the credit facility (\$ in thousands):

	<b>September 28, 2019</b>	<b>December 29, 2018</b>
Outstanding borrowings	\$ 213,700	\$ 199,600
Outstanding letters of credit	3,497	3,497
Additional borrowing capacity	232,803	96,903
Weighted-average interest rate	3.9%	4.2%

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Notes to Condensed Consolidated Financial Statements*  
(unaudited)

**6. Leases**

We lease our retail, office and manufacturing space under operating leases which, in addition to the minimum lease payments, may require payment of a proportionate share of the real estate taxes and certain building operating expenses. While our local market development approach generally results in long-term participation in given markets, our retail store leases generally provide for an initial lease term of five to 10 years. Our office and manufacturing leases provide for an initial lease term of up to 15 years. In addition, our mall-based retail store leases may require payment of variable rent based on net sales in excess of certain thresholds. Certain leases may contain options to extend the term of the original lease. The exercise of lease renewal options is at our sole discretion. Lease options are included in the lease term only if exercise is reasonably certain at lease commencement. Our lease agreements do not contain any material residual value guarantees. We also lease vehicles and certain equipment under operating leases with an initial lease term of three to five years.

We determine if an arrangement is a lease at inception. Beginning in 2019 in conjunction with our adoption of ASC Topic 842 *Leases*, right-of-use (ROU) assets and operating lease liabilities are recognized at the lease commencement date based on the estimated present value of future lease payments over the lease term. Most of our leases do not provide an implicit interest rate nor is the rate available to us from our lessors. As an alternative we use our estimated incremental borrowing rate, which is derived from information available at the lease commencement date, including publicly available data, in determining the present value of lease payments.

Our operating lease costs include facility, vehicle and equipment lease costs, but exclude variable lease costs. Operating lease costs are recognized on a straight-line basis over the lease term, after consideration of rent escalations and rent holidays. The lease term for purposes of the calculation begins on the earlier of the lease commencement date or the date we take possession of the property. During lease renewal negotiations that extend beyond the original lease term, we estimate straight-line rent expense based on current market conditions. Variable lease costs are recorded when it is probable the cost has been incurred and the amount is reasonably estimable. Future payments for real estate taxes and certain building operating expenses for which we are obligated are not included in operating lease costs. Leases with an initial term of 12 months or less are not recorded on the balance sheet as an ROU asset or operating lease liability. We recognize operating lease costs for these short-term leases, primarily small equipment leases, on a straight-line basis over the lease term. At September 28, 2019, our finance ROU assets and lease liabilities were not significant.

Operating lease costs were as follows (in thousands):

	<b>Three Months Ended</b>	<b>Nine Months Ended</b>
	<b>September 28, 2019</b>	<b>September 28, 2019</b>
Operating lease costs <sup>(1)</sup>	\$ 21,583	\$ 63,719
Variable lease costs	\$ 466	\$ 1,387

<sup>(1)</sup> Includes short-term lease costs which are not significant.

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Notes to Condensed Consolidated Financial Statements*  
(unaudited)

The maturities of operating lease liabilities as of September 28, 2019, were as follows (in thousands):

2019 (excluding the nine months ended September 28, 2019)	\$	21,045
2020		79,652
2021		72,354
2022		64,339
2023		54,970
2024		43,393
Thereafter		110,847
Total lease payments <sup>(1)</sup>		446,600
Less: Interest		95,355
Present value of operating lease liabilities <sup>(2)</sup>	\$	351,245

(1) Total lease payments exclude \$51 million of legally binding minimum lease payments for leases signed but not yet commenced.

(2) Includes the current portion of \$58 million for operating lease liabilities.

The aggregate future commitments under operating leases as of December 30, 2018, were expected to be as follows (in thousands):

2019	\$	78,337
2020		73,331
2021		66,491
2022		59,515
2023		51,076
Thereafter		149,318
Total lease payments <sup>(1)</sup>	\$	478,068

(1) Total lease payments include \$62 million of legally binding minimum lease payments for leases signed but not yet commenced.

Other information related to operating leases was as follows:

	<b>September 28, 2019</b>
Weighted-average remaining lease term (years)	6.7
Weighted-average discount rate	7.3%

	<b>Nine Months Ended September 28, 2019</b>
(in thousands)	
Cash paid for amounts included in present value of operating lease liabilities	\$ 60,512
Right-of-use assets obtained in exchange for operating lease liabilities <sup>(1)</sup>	\$ 53,230

(1) See Note 1, *Recently Adopted Accounting Guidance*, which discusses the impact of our initial adoption of the new lease standard.

## 7. Repurchases of Common Stock

Repurchases of our common stock were as follows (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 28, 2019</b>	<b>September 29, 2018</b>	<b>September 28, 2019</b>	<b>September 29, 2018</b>
Amount repurchased under Board-approved share repurchase program	\$ 40,000	\$ 55,000	\$ 120,900	\$ 195,000
Amount repurchased in connection with the vesting of employee restricted stock grants	142	299	9,575	3,239
Total amount repurchased	\$ 40,142	\$ 55,299	\$ 130,475	\$ 198,239

Effective as of September 29, 2019, our board approved an increase in our total remaining share repurchase authorization to \$00 million.

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Notes to Condensed Consolidated Financial Statements*  
(unaudited)

**8. Revenue Recognition**

Deferred contract assets and deferred contract liabilities are included in our consolidated balance sheets as follows (in thousands):

	<b>September 28, 2019</b>	<b>December 29, 2018</b>
<b>Deferred Contract Assets included in:</b>		
Other current assets	\$ 22,765	\$ 20,553
Other non-current assets	32,758	29,456
	<u>\$ 55,523</u>	<u>\$ 50,009</u>
	<b>September 28, 2019</b>	<b>December 29, 2018</b>
<b>Deferred Contract Liabilities included in:</b>		
Other current liabilities	\$ 33,885	\$ 32,395
Other non-current liabilities	44,088	42,194
	<u>\$ 77,973</u>	<u>\$ 74,589</u>

During the three months ended September 28, 2019 and September 29, 2018, we recognized revenue of \$9 million and \$8 million, respectively, that was included in the deferred contract liability balance at the beginning of the respective periods. During the nine months ended September 28, 2019 and September 29, 2018, we recognized revenue of \$25 million and \$22 million, respectively, that was included in the deferred contract liability balance at the beginning of the respective periods.

Revenue from goods and services transferred to customers at a point in time accounted for approximately 98% of our revenues for both the three and nine months ended September 28, 2019 and September 29, 2018.

Net sales from each of our channels was as follows (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 28, 2019</b>	<b>September 29, 2018</b>	<b>September 28, 2019</b>	<b>September 29, 2018</b>
Retail	\$ 437,871	\$ 383,886	\$ 1,158,096	\$ 1,026,808
Online and phone	34,520	28,686	89,695	81,580
Company-Controlled channel	472,391	412,572	1,247,791	1,108,388
Wholesale/Other channel	2,387	2,207	9,395	11,362
Total	<u>\$ 474,778</u>	<u>\$ 414,779</u>	<u>\$ 1,257,186</u>	<u>\$ 1,119,750</u>

*Obligation for Sales Returns*

The activity in the sales returns liability account was as follows (in thousands):

	<b>Nine Months Ended</b>	
	<b>September 28, 2019</b>	<b>September 29, 2018</b>
Balance at beginning of year	\$ 19,907	\$ 19,270
Additions that reduce net sales	60,962	57,296
Deductions from reserves	(57,036)	(56,031)
Balance at end of period	<u>\$ 23,833</u>	<u>\$ 20,535</u>

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Notes to Condensed Consolidated Financial Statements*  
(unaudited)

**9. Stock-Based Compensation Expense**

Total stock-based compensation expense was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Stock awards	\$ 3,527	\$ 2,759	\$ 10,256	\$ 8,247
Stock options	619	597	1,778	1,851
Total stock-based compensation expense	4,146	3,356	12,034	10,098
Income tax benefit	984	802	2,948	2,454
Total stock-based compensation expense, net of tax	<u>\$ 3,162</u>	<u>\$ 2,554</u>	<u>\$ 9,086</u>	<u>\$ 7,644</u>

**10. Profit Sharing and 401(k) Plan**

Under our profit sharing and 401(k) plan, eligible employees may defer up to 50% of their compensation on a pre-tax basis, subject to Internal Revenue Service limitations. Each pay period, we may make a discretionary contribution equal to a percentage of the employee's contribution. During the three months ended September 28, 2019 and September 29, 2018, our contributions, net of forfeitures, were \$1.5 million. During the nine months ended September 28, 2019 and September 29, 2018, our contributions, net of forfeitures, were \$4.5 million and \$4.2 million, respectively.

**11. Net Income per Common Share**

The components of basic and diluted net income per share were as follows (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income	\$ 28,054	\$ 18,257	\$ 57,752	\$ 42,549
<b>Reconciliation of weighted-average shares outstanding:</b>				
Basic weighted-average shares outstanding	29,085	34,231	29,859	36,204
Dilutive effect of stock-based awards	711	808	829	873
Diluted weighted-average shares outstanding	<u>29,796</u>	<u>35,039</u>	<u>30,688</u>	<u>37,077</u>
Net income per share – basic	\$ 0.96	\$ 0.53	\$ 1.93	\$ 1.18
Net income per share – diluted	\$ 0.94	\$ 0.52	\$ 1.88	\$ 1.15

For the three and nine months ended September 28, 2019 and September 29, 2018, anti-dilutive stock-based awards excluded from the diluted net income per share calculations were immaterial.

**SLEEP NUMBER CORPORATION  
AND SUBSIDIARIES**  
*Notes to Condensed Consolidated Financial Statements*  
(unaudited)

**12. Commitments and Contingencies**

*Warranty Liabilities*

The activity in the accrued warranty liabilities account was as follows (in thousands):

	Nine Months Ended	
	September 28, 2019	September 29, 2018
Balance at beginning of year	\$ 10,389	\$ 9,320
Additions charged to costs and expenses for current-year sales	8,033	9,275
Deductions from reserves	(8,159)	(8,461)
Changes in liability for pre-existing warranties during the current year, including expirations	1,189	177
Balance at end of period	<u>\$ 11,452</u>	<u>\$ 10,311</u>

*Legal Proceedings*

We are involved from time to time in various legal proceedings arising in the ordinary course of our business, including primarily commercial, product liability, employment and intellectual property claims. In accordance with U.S. generally accepted accounting principles, we record a liability in our consolidated financial statements with respect to any of these matters when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. If a material loss is reasonably possible but not known or probable, and may be reasonably estimated, the estimated loss or range of loss is disclosed. With respect to currently pending legal proceedings, we have not established an estimated range of reasonably possible material losses either because we believe that we have valid defenses to claims asserted against us, the proceeding has not advanced to a stage of discovery that would enable us to establish an estimate, or the potential loss is not material. We currently do not expect the outcome of pending legal proceedings to have a material effect on our consolidated results of operations, financial position or cash flows. Litigation, however, is inherently unpredictable, and it is possible that the ultimate outcome of one or more claims asserted against us could adversely impact our consolidated results of operations, financial position or cash flows. We expense legal costs as incurred.

On September 18, 2018, two former Home Delivery team members filed suit, now venued in Superior Court in Fresno County, California, alleging representative claims on a purported class action basis under the California Labor Code Private Attorney General Act. While the two representative plaintiffs were in the Home Delivery workforce, the Complaint does not limit the purported plaintiff class to that group. The plaintiffs allege that Sleep Number failed or refused to adopt adequate practices, policies and procedures relating to wage payments, record keeping, employment disclosures, meal and rest breaks, among other claims, under California law. The Complaint sought damages in the form of civil penalties and plaintiffs' attorneys' fees, and expressly disclaims the recovery of any purported individual specific relief or underpaid wages. The parties tentatively reached a settlement pending Court approval, which includes the settlement and release of certain additional related claims. We intend to continue vigorously defending this matter in the event it does not settle.

On March 27, 2018, Level Sleep, LLC filed a patent infringement lawsuit against Sleep Number in the Federal District Court for the Eastern District of Texas. In its Complaint, Level Sleep claims that Sleep Number infringed two patents owned by Level Sleep, U.S. Patent Nos. 6,807,698 and 7,036,172 (the "Patents"), by, among other things, making, using, offering for sale, or selling within the United States, and/or importing into the United States, beds with sleep surfaces having foam with multiple zones in the longitudinal direction. Level Sleep has asserted that five non-360 beds no longer sold and two current non-360 beds infringe the Patents. Level Sleep seeks damages in the form of a reasonable royalty. Sleep Number has asserted that the Patents are invalid and that our products do not infringe the Patents. The case is scheduled for trial in February 2020. We intend to vigorously defend this matter.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our condensed consolidated financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in seven sections:

- Risk Factors
- Company Overview
- Results of Operations
- Liquidity and Capital Resources
- Non-GAAP Data
- Off-Balance-Sheet Arrangements and Contractual Obligations
- Critical Accounting Policies

### **Risk Factors**

*The discussion in this Quarterly Report contains certain forward-looking statements that relate to future plans, events, financial results or performance. You can identify forward-looking statements by those that are not historical in nature, particularly those that use terminology such as "may," "will," "should," "could," "expect," "anticipate," "believe," "estimate," "plan," "project," "predict," "intend," "potential," "continue" or the negative of these or similar terms. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, among others:*

- *Current and future general and industry economic trends and consumer confidence;*
- *The effectiveness of our marketing messages;*
- *The efficiency of our advertising and promotional efforts;*
- *Our ability to execute our Company-Controlled distribution strategy;*
- *Our ability to achieve and maintain acceptable levels of product and service quality, and acceptable product return and warranty claims rates;*
- *Our ability to continue to improve and expand our product line, and consumer acceptance of our products, product quality, innovation and brand image;*
- *Industry competition, the emergence of additional competitive products and the adequacy of our intellectual property rights to protect our products and brand from competitive or infringing activities;*
- *The potential for claims that our products, processes, advertising, or trademarks infringe the intellectual property rights of others;*
- *Availability of attractive and cost-effective consumer credit options;*
- *Our manufacturing processes with minimal levels of inventory, which may leave us vulnerable to shortages in supply;*
- *Our dependence on significant suppliers and third parties and our ability to maintain relationships with key suppliers or third parties, including several sole-source suppliers or providers of services;*
- *Rising commodity costs and other inflationary pressures;*
- *Risks inherent in global sourcing activities, including tariffs and the potential for shortages in supply;*
- *Risks of disruption in the operation of any of our main manufacturing facilities or assembly facilities;*
- *Increasing government regulation;*
- *Pending or unforeseen litigation and the potential for adverse publicity associated with litigation;*
- *The adequacy of our and third-party information systems to meet the evolving needs of our business and existing and evolving risks and regulatory standards applicable to data privacy and security;*
- *The costs and potential disruptions to our business related to upgrading our information systems;*
- *The vulnerability of our and third-party information systems to attacks by hackers or other cyber threats that could compromise the security of our systems, result in a data breach or disrupt our business;*
- *Our ability to attract, retain and motivate qualified management, executive and other key team members, including qualified retail sales professionals and managers.*

***Additional information concerning these, and other risks and uncertainties is contained under the caption "Risk Factors" in our Annual Report on Form 10-K.***

We have no obligation to publicly update or revise any of the forward-looking statements contained in this Quarterly Report on Form 10-Q.

## **Company Overview**

Sleep Number Corporation, based in Minneapolis, Minnesota, was founded in 1987. We are listed on The Nasdaq Stock Market LLC (Nasdaq Global Select Market) under the symbol “SNBR.”

Sleep Number is the exclusive designer, manufacturer, marketer, retailer and servicer of Sleep Number® beds and the leader in sleep innovation. We offer our customers high-quality, individualized sleep solutions and services, including a complete line of Sleep Number beds, bases and bedding accessories. We are also the pioneer and leader in biometric sleep innovation and tracking. Our proprietary SleepIQ® technology, the operating system of the 360® smart bed, works with our proprietary algorithms and artificial intelligence to track user’s sleep patterns and biometric changes. SleepIQ allows each bed to use the sleeper’s own data to automatically and effortlessly adjust the bed’s firmness, delivering proven quality sleep.

Our relentless focus on developing benefit-driven innovation for our customers is resulting in superior shareholder value, as we: (i) increase consumer demand; (ii) leverage our business model; and (iii) deploy capital efficiently.

## **Results of Operations**

### **Quarterly and Year-to-Date Results**

Quarterly and year-to-date operating results may fluctuate significantly as a result of a variety of factors, including increases or decreases in sales, timing, amount and effectiveness of advertising expenditures, changes in sales return rates or warranty experience, timing of investments in growth initiatives and infrastructure, timing of store openings/closings and related expenses, changes in net sales resulting from changes in our store base, timing of new product introductions and related expenses, timing of promotional offerings, competitive factors, changes in commodity costs, disruptions in supplies or third-party service providers, seasonality of retail and bedding industry sales, consumer confidence and general economic conditions. Therefore, our historical results of operations may not be indicative of the results that may be achieved for any future period.

### **Highlights**

Financial highlights for the period ended September 28, 2019 were as follows:

- Net sales for the three months ended September 28, 2019 increased 14% to \$475 million, compared with \$415 million for the same period one year ago. Net sales for the three months ended September 29, 2018 were impacted by an approximately \$24 million shift in sales from our third quarter to our fourth quarter.
- The 14% net sales increase resulted from a 10% comparable sales increase in our Company-Controlled channel and a 5 percentage point (ppt.) increase in sales from 33 net new stores opened in the past 12 months. For additional details, see the components of total net sales change on page 14.
- Sales per store (Company-Controlled channel sales for stores open at least one year, including online and phone sales) on a trailing twelve-month basis for the period ended September 28, 2019 totaled \$2.9 million, 8% higher than the same period one year ago.
- Operating income for the three months ended September 28, 2019 was \$39 million, an increase of 55%, or \$14 million, from the prior-year period. Our operating income rate increased to 8.2% of net sales, compared with 6.1% of net sales for the same period last year. The prior-period’s operating income and operating income rate were affected by the sales shift highlighted above.
- The current-period’s operating income and operating income rate were positively impacted by the 14% increase in net sales and a 2.0 ppt. improvement in the gross profit rate. The 2.0 ppt. gross profit rate improvement was primarily due to three factors: (i) a favorable sales mix of high-margin products; (ii) the elimination of prior year’s product transition costs; and (iii) current-period manufacturing and supply chain efficiency gains, and benefit-driven product price increases.
- Net income for the three months ended September 28, 2019 increased 54% to \$28 million, compared with \$18 million for the same period one year ago. Earnings per diluted share were \$0.94, up 81% compared with \$0.52 last year.
- Cash provided by operating activities for the nine months ended September 28, 2019 increased by \$55 million to \$190 million, compared with \$134 million for the same period one year ago.
- At September 28, 2019, we ended the quarter with \$214 million of borrowings under our \$450 million revolving credit facility.
- During the three months ended September 28, 2019, we repurchased 0.9 million shares of our common stock under our Board-approved share repurchase program at a cost of \$40 million (based on trade date, at an average of \$42.77 per share). Effective as of September 29, 2019, our Board approved an increase in the remaining authorization under our Board-approved share repurchase program to \$500 million.

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The following table sets forth our results of operations expressed as dollars and percentages of net sales. Figures are in millions, except percentages and per share amounts. Amounts may not add due to rounding differences.

	Three Months Ended				Nine Months Ended			
	September 28, 2019		September 29, 2018		September 28, 2019		September 29, 2018	
Net sales	\$ 474.8	100.0%	\$ 414.8	100.0%	\$ 1,257.2	100.0%	\$ 1,119.8	100.0%
Cost of sales	178.4	37.6%	164.3	39.6%	481.4	38.3%	442.9	39.6%
Gross profit	296.4	62.4%	250.5	60.4%	775.8	61.7%	676.9	60.4%
Operating expenses:								
Sales and marketing	213.1	44.9%	188.5	45.4%	568.8	45.2%	511.5	45.7%
General and administrative	35.1	7.4%	29.4	7.1%	102.5	8.2%	89.9	8.0%
Research and development	9.0	1.9%	7.4	1.8%	25.4	2.0%	21.1	1.9%
Total operating expenses	257.2	54.2%	225.2	54.3%	696.7	55.4%	622.6	55.6%
Operating income	39.2	8.2%	25.3	6.1%	79.1	6.3%	54.3	4.9%
Interest expense, net	3.1	0.7%	1.8	0.4%	9.0	0.7%	3.8	0.3%
Income before income taxes	36.0	7.6%	23.5	5.7%	70.1	5.6%	50.5	4.5%
Income tax expense	8.0	1.7%	5.2	1.3%	12.4	1.0%	7.9	0.7%
Net income	\$ 28.1	5.9%	\$ 18.3	4.4%	\$ 57.8	4.6%	\$ 42.5	3.8%
Net income per share:								
Basic	\$ 0.96		\$ 0.53		\$ 1.93		\$ 1.18	
Diluted	\$ 0.94		\$ 0.52		\$ 1.88		\$ 1.15	
Weighted-average number of common shares:								
Basic	29.1		34.2		29.9		36.2	
Diluted	29.8		35.0		30.7		37.1	

The percentage of our total net sales, by dollar volume, from each of our channels was as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Company-Controlled channel	99.5%	99.5%	99.3%	99.0%
Wholesale/Other channel	0.5%	0.5%	0.7%	1.0%
Total	100.0%	100.0%	100.0%	100.0%

The components of total net sales change, including comparable net sales changes, were as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Sales change rates:</b>				
Retail comparable-store sales (1)	9%	(1)%	7%	0%
Online and phone	20%	10%	10%	11%
Company-Controlled comparable sales change (1)	10%	0%	8%	1%
Net opened/closed stores	5%	3%	5%	3%
Total Company-Controlled channel	15%	3%	13%	4%
Wholesale/Other channel	8%	(21)%	(17)%	(31)%
Total net sales change	14%	3%	12%	4%

(1) Stores are included in the comparable-store calculations in the 13th full month of operations. Stores that have been remodeled or repositioned within the same shopping center remain in the comparable-store base.

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Other sales metrics were as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Average sales per store <sup>(1)</sup> (\$ in thousands)	\$ 2,858	\$ 2,635		
Average sales per square foot <sup>(1)</sup>	\$ 1,029	\$ 977		
Stores > \$2 million in net sales <sup>(2)</sup>	70%	62%		
Stores > \$3 million in net sales <sup>(2)</sup>	28%	23%		
Average revenue per mattress unit – Company-Controlled channel <sup>(3)</sup>	\$ 4,788	\$ 4,387	\$ 4,837	\$ 4,432

(1) Trailing-twelve months Company-Controlled comparable sales per store open at least one year.

(2) Trailing-twelve months for stores open at least one year (excludes online and phone sales).

(3) Represents Company-Controlled channel total net sales divided by Company-Controlled channel mattress units.

The number of retail stores operating was as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Beginning of period	594	565	579	556
Opened	15	9	47	33
Closed	(7)	(5)	(24)	(20)
End of period	602	569	602	569

#### **Comparison of Three Months Ended September 28, 2019 with Three Months Ended September 29, 2018**

##### **Net sales**

Net sales for the three months ended September 28, 2019 increased by \$60 million, or 14%, to \$475 million, compared with \$415 million for the same period one year ago. Net sales for the three months ended September 29, 2018 were impacted by an approximately \$24 million shift in sales from our third quarter to our fourth quarter.

The 14% net sales increase resulted from a 10% comparable sales increase in our Company-Controlled channel and 5 percentage points (ppt.) of sales growth from 33 net new stores opened in the past 12 months.

The \$60 million net sales increase compared with the same period one year ago was comprised of the following: (i) a \$37 million increase in our Company-Controlled comparable net sales; and (ii) a \$23 million increase resulting from net store openings. Wholesale/Other channel sales increased slightly year-over-year. Company-Controlled mattress unit sales increased 5% compared with the prior year. Average revenue per mattress unit in our Company-Controlled channel totaled \$4,788, a 9% increase compared with \$4,387 in the prior-year period.

##### **Gross profit**

Gross profit of \$296 million increased by \$46 million, or 18%, compared with \$251 million for the same period one year ago. The gross profit rate improved to 62.4% of net sales for the three months ended September 28, 2019, compared with 60.4% for the prior-year comparable period. The current-year gross profit rate increase of 2.0 ppt. was primarily due to three factors: (i) a favorable sales mix of high-margin products (1.2 ppt.); (ii) the elimination of prior year's product transition costs and temporary inefficiencies associated with operating two supply chains (0.7 ppt.); and (iii) current-period manufacturing and supply chain efficiency gains, and benefit-driven product price increases (0.6 ppt.). These three positive factors were partially offset by: (i) increased tariff costs (0.3 ppt.); and (ii) customer delivery cost inflation (0.2 ppt.). In addition, our gross profit rate will fluctuate from quarter to quarter due to a variety of other factors, including warranty expenses, return and exchange costs, and performance-based incentive compensation.

### **Sales and marketing expenses**

Sales and marketing expenses for the three months ended September 28, 2019 were \$213 million, or 44.9% of net sales, compared with \$188 million, or 45.4% of net sales, for the same period one year ago. The 0.5 ppt. decrease in the sales and marketing expense rate was primarily due to the expense leverage from the 14% increase in net sales; partially offset by an increase in media expenses that drove additional customer traffic to our sales channels, including stores, online and phone.

### **General and administrative expenses**

General and administrative (G&A) expenses totaled \$35 million, or 7.4% of net sales, for the three months ended September 28, 2019, compared with \$29 million, or 7.1% of net sales, in the prior-year period. The \$5.7 million increase in G&A expenses consisted primarily of: (i) a \$4.3 million increase in employee compensation primarily resulting from a year-over-year increase in performance-based incentive compensation; and (ii) a \$1.1 million increase in professional fees. The G&A expense rate increased by 0.3 ppt. in the current-year period, compared with the same period one year ago due to the items discussed above, partially offset by the leveraging impact of the 14% net sales increase.

### **Research and development expenses**

Research and development (R&D) expenses increased by 22% to \$9 million for the three months ended September 28, 2019, compared with \$7 million for the same period one year ago. The R&D expense rate for the three months ended September 28, 2019 increased to 1.9% of net sales, compared with 1.8% of net sales for the prior year. The spending level increase supports our consumer innovation strategy.

### **Interest expense, net**

Interest expense, net increased to \$3.1 million for the three months ended September 28, 2019, compared with \$1.8 million for the same period one year ago. The \$1.3 million change was due to our planned increase in borrowings under our revolving credit facility. At September 28, 2019, we ended the quarter with \$214 million of borrowings under our revolving credit facility, compared with \$136 million one year ago.

### **Income tax expense**

Income tax expense totaled \$8.0 million for the three months ended September 28, 2019, compared with \$5.2 million last year. The effective income tax rate for the three months ended September 28, 2019 was 22.1%, compared with 22.3% for the comparable period last year. Both periods benefited from: (i) the recognition of additional tax credits; and (ii) stock-based compensation excess tax benefits.

### **Comparison of Nine Months Ended September 28, 2019 with Nine Months Ended September 29, 2018**

#### **Net sales**

Net sales for the nine months ended September 28, 2019 increased by \$137 million, or 12%, to \$1.3 billion, compared with \$1.1 billion for the same period one year ago. Net sales for the nine months ended September 29, 2018 were impacted by an approximately \$24 million shift in sales from our third quarter to our fourth quarter.

The 12% net sales increase resulted from an 8% comparable sales increase in our Company-Controlled channel and 5 percentage points (ppt.) of sales growth from 33 net new stores opened in the past 12 months.

The \$137 million net sales increase compared with the same period one year ago was comprised of the following: (i) an \$80 million increase in our Company-Controlled comparable net sales; and (ii) a \$59 million increase resulting from net store openings. Wholesale/Other channel sales decreased slightly year-over-year. Company-Controlled mattress unit sales increased 3% compared with the prior year. Average revenue per mattress unit in our Company-Controlled channel totaled \$4,837, a 9% increase, compared with \$4,432 in the prior-year period.

#### **Gross profit**

Gross profit of \$776 million for the nine months ended September 28, 2019 increased by \$99 million, or 15%, compared with \$677 million for the same period one year ago. The gross profit rate improved to 61.7% of net sales, compared with 60.4% for the prior-year comparable period. The current-year gross profit rate improvement of 1.3 ppt. was primarily due to three factors: (i) current-period manufacturing and supply chain efficiency gains, and benefit-driven product price increases (0.8 ppt.); (ii) the elimination of

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prior year's product transition costs (0.8 ppt.); and (iii) a favorable sales mix of high-margin products (0.2 ppt.) These three positive factors were partially offset by: (i) increased tariff costs (0.3 ppt.); and (ii) customer delivery cost inflation (0.2 ppt.). In addition, our gross profit rate will fluctuate from quarter to quarter due to a variety of other factors, including warranty expenses, return and exchange costs, and performance-based incentive compensation.

### **Sales and marketing expenses**

Sales and marketing expenses for the nine months ended September 28, 2019 were \$569 million, or 45.2% of net sales, compared with \$511 million, or 45.7% of net sales, for the same period one year ago. The 0.5 ppt. decrease in the sales and marketing expense rate was primarily due to the expense leverage from the 12% increase in net sales, partially offset by an increase in media expenses that drove additional customer traffic to our sales channels, including stores, online and phone.

### **General and administrative expenses**

General and administrative (G&A) expenses totaled \$102 million, or 8.2% of net sales, for the nine months ended September 28, 2019, compared with \$90 million, or 8.0% of net sales, in the prior-year period. The \$12.5 million increase in G&A expenses consisted of the following: (i) a \$8.1 million increase in employee compensation primarily resulting from a year-over-year increase in performance-based incentive compensation; (ii) a \$2.8 million increase in professional fees; and (iii) a \$1.6 million net increase in miscellaneous other expenses. The G&A expense rate increased by 0.2 ppt. in the current-year period, compared with the same period one year ago due to the items discussed above, partially offset by the leveraging impact of the 12% net sales increase.

### **Research and development expenses**

Research and development (R&D) expenses increased by 20% to \$25 million for the nine months ended September 28, 2019, compared with \$21 million for the same period one year ago. The R&D expense rate for the nine months ended September 28, 2019 increased to 2.0% of net sales, compared with 1.9% of net sales for the prior year. The spending level increase supports our consumer innovation strategy.

### **Interest expense, net**

Interest expense, net increased to \$9.0 million for the nine months ended September 28, 2019, compared with \$3.8 million for the same period one year ago. The \$5.2 million increase was due to our planned increase in borrowings under our revolving credit facility and the year-over-year increase in LIBOR rates. At September 28, 2019, we ended the quarter with \$214 million of borrowings under our revolving credit facility, compared with \$136 million one year ago.

### **Income tax expense**

Income tax expense totaled \$12.4 million for the nine months ended September 28, 2019, compared with \$7.9 million last year. Both periods benefited from discrete tax items. The effective income tax rate for the nine months ended September 28, 2019 was 17.7% reflecting stock-based compensation excess tax benefits, additional tax credits and the favorable resolution of a tax matter. The effective tax rate for the nine months ended September 29, 2018 was 15.7% reflecting the changes associated with the Tax Cuts and Jobs Act, including a \$2.9 million increase in the 2017 provisional tax benefit in the second-quarter 2018 and stock-based compensation excess tax benefits.

### **Liquidity and Capital Resources**

Managing our liquidity and capital resources is an important part of our commitment to deliver superior shareholder value. Our primary sources of liquidity are cash flows provided by operating activities and cash available under our \$450 million revolving credit facility. The cash generated from ongoing operations, and cash available under our revolving credit facility are expected to be adequate to maintain operations, and fund anticipated expansion and strategic initiatives for the foreseeable future.

As of September 28, 2019, cash and cash equivalents totaled \$2 million. Available borrowing capacity under our revolving credit facility was \$233 million at September 28, 2019. Changes in the cash and cash equivalents primarily consisted of \$190 million of cash provided by operating activities, which was offset by \$47 million of cash used to purchase property and equipment, and \$139 million of cash used to repurchase our common stock (based on settlement, \$130 million under our Board-approved share repurchase program and \$9 million in connection with the vesting of employee restricted stock grants).

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The following table summarizes our cash flows (\$ in millions). Amounts may not add due to rounding differences:

	Nine Months Ended	
	September 28, 2019	September 29, 2018
<b>Total cash provided by (used in):</b>		
Operating activities	\$ 189.8	\$ 134.5
Investing activities	(44.2)	(33.8)
Financing activities	(145.7)	(103.0)
Net decrease in cash and cash equivalents	<u>\$ (0.1)</u>	<u>\$ (2.4)</u>

Cash provided by operating activities for the nine months ended September 28, 2019 was \$190 million, compared with \$134 million for the nine months ended September 29, 2018. Significant components of the year-over-year change in cash provided by operating activities included: (i) a \$15 million increase in net income for the nine months ended September 28, 2019, compared with the same period one year ago; (ii) a \$19 million fluctuation in accounts payable with both periods impacted by business changes and timing of payments; (iii) a \$14 million fluctuation in accrued compensation and benefits that primarily resulted from year-over-year changes in company-wide performance-based incentive compensation that was accrued and paid in the two comparable periods (higher incentive compensation paid in 2018 and lower incentive compensation accrued in the first nine months of 2018); (iv) a \$14 million fluctuation in income taxes reflecting the changes associated with the Tax Cuts and Jobs Act; and (v) a \$13 million fluctuation in prepaid expenses and other assets with both periods impacted by the timing of rent payments and changes in business activities.

Net cash used in investing activities to purchase property and equipment was \$47 million for the nine months ended September 28, 2019, compared with \$34 million for the same period one year ago. The year-over-year increase was primarily due to the timing of cash flows associated with new and remodeled stores' property and equipment.

Net cash used in financing activities was \$146 million for the nine months ended September 28, 2019, compared with \$103 million for the same period one year ago. During the nine months ended September 28, 2019, we repurchased \$139 million of our stock (based on settlement, \$130 million under our Board-approved share repurchase program and \$9 million in connection with the vesting of employee restricted stock awards), compared with \$198 million during the same period one year ago. Short-term borrowings were reduced by \$11 million during the current-year period due to a decrease in book overdrafts which are included in the net change in short-term borrowings, partially offset by a \$14 million increase in borrowings under our revolving credit facility to \$214 million. Short-term borrowings increased by \$94 million during the prior-year period due to a \$111 million increase in borrowings under our revolving credit facility to \$136 million, partially offset by a decrease in book overdrafts.

Under our Board-approved share repurchase program, we repurchased 3.0 million shares at a cost of \$121 million (based on trade date, at an average of \$40.19 per share) during the nine months ended September 28, 2019. During the nine months ended September 29, 2018, we repurchased 5.9 million shares at a cost of \$195 million (an average of \$32.93 per share). Effective as of September 29, 2019, our Board approved an increase in the remaining authorization under our Board-approved share repurchase program to \$500 million. There is no expiration date governing the period over which we can repurchase shares.

In February 2019, we amended our revolving credit facility to increase our net aggregate availability from \$300 million to \$450 million. We maintained the accordion feature, which allows us to increase the amount of the credit facility from \$450 million to \$600 million, subject to lenders' approval. The amended credit facility matures in February 2024. There were no other significant changes to the credit agreement's terms and conditions.

As of September 28, 2019, we had \$214 million of borrowings under our credit facility and \$3 million in outstanding letters of credit. Our available borrowing capacity was \$233 million. The credit agreement provides the lenders with a collateral security interest in substantially all of our assets and those of our subsidiaries and requires us to comply with, among other things, a maximum leverage ratio (4.5x) and a minimum interest coverage ratio (3.0x). Under the terms of the credit agreement we pay a variable rate of interest and a commitment fee based on our leverage ratio. The credit facility is for general corporate purposes, to meet our seasonal working capital requirements and to repurchase our stock. As of September 28, 2019, the weighted-average interest rate on borrowings under the credit facility was 3.9% and we were in compliance with all financial covenants.

We have an agreement with Synchrony Bank to offer qualified customers revolving credit arrangements to finance purchases from us (Synchrony Agreement). The Synchrony Agreement contains financial covenants consistent with our credit facility, including a maximum leverage ratio and a minimum interest coverage ratio. As of September 28, 2019, we were in compliance with all financial covenants.

Under the terms of the Synchrony Agreement, Synchrony Bank sets the minimum acceptable credit ratings, the interest rates, fees and all other terms and conditions of the customer accounts, including collection policies and procedures, and is the owner of the accounts.

**Non-GAAP Data****Earnings before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)**

We define earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) as net income plus: income tax expense, interest expense, depreciation and amortization, stock-based compensation and asset impairments. Management believes Adjusted EBITDA is a useful indicator of our financial performance and our ability to generate cash from operating activities. Our definition of Adjusted EBITDA may not be comparable to similarly titled definitions used by other companies. The table below reconciles Adjusted EBITDA, which is a non-GAAP financial measure, to the comparable GAAP financial measure.

Our Adjusted EBITDA calculations are as follows (in thousands):

	Three Months Ended		Trailing-Twelve Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income	\$ 28,054	\$ 18,257	\$ 84,742	\$ 58,340
Income tax expense	7,967	5,228	21,421	12,064
Interest expense	3,131	1,836	11,064	4,044
Depreciation and amortization	14,963	15,483	61,155	61,658
Stock-based compensation	4,146	3,356	13,348	14,052
Asset impairments	29	30	150	135
Adjusted EBITDA	<u>\$ 58,290</u>	<u>\$ 44,190</u>	<u>\$ 191,880</u>	<u>\$ 150,293</u>

**Free Cash Flow**

Our “free cash flow” data is considered a non-GAAP financial measure and is not in accordance with, or preferable to, “net cash provided by operating activities,” or GAAP financial data. However, we are providing this information as we believe it facilitates analysis for investors and financial analysts.

The following table summarizes our free cash flow calculations (in thousands):

	Nine Months Ended		Trailing-Twelve Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net cash provided by operating activities	\$ 189,832	\$ 134,450	\$ 186,922	\$ 131,003
Subtract: Purchases of property and equipment	46,757	34,012	58,260	56,228
Free cash flow	<u>\$ 143,075</u>	<u>\$ 100,438</u>	<u>\$ 128,662</u>	<u>\$ 74,775</u>

**Non-GAAP Data (continued)**

**Return on Invested Capital (ROIC)**

(dollars in thousands)

ROIC is a financial measure we use to determine how efficiently we deploy our capital. It quantifies the return we earn on our invested capital. Management believes ROIC is also a useful metric for investors and financial analysts. We compute ROIC as outlined below. Our definition and calculation of ROIC may not be comparable to similarly titled definitions and calculations used by other companies. The tables below reconcile net operating profit after taxes (NOPAT) and total invested capital, which are non-GAAP financial measures, to the comparable GAAP financial measures:

	<b>Trailing-Twelve Months Ended</b>	
	<b>September 28, 2019</b>	<b>September 29, 2018</b>
<b>Net operating profit after taxes (NOPAT)</b>		
Operating income	\$ 117,224	\$ 74,427
Add: Rent expense (1)	85,807	77,797
Add: Interest income	4	21
Less: Depreciation on capitalized operating leases(2)	(21,821)	(20,012)
Less: Income taxes (3)	(44,298)	(34,751)
<b>NOPAT</b>	<b>\$ 136,916</b>	<b>\$ 97,482</b>
<b>Average invested capital</b>		
Total deficit	\$ (164,487)	\$ (54,352)
Add: Long-term debt (4)	214,482	136,683
Add: Capitalized operating lease obligations (5)	686,456	622,376
<b>Total invested capital at end of period</b>	<b>\$ 736,451</b>	<b>\$ 704,707</b>
<b>Average invested capital (6)</b>	<b>\$ 743,271</b>	<b>\$ 710,325</b>
<b>Return on invested capital (ROIC) (7)</b>	<b>18.4%</b>	<b>13.7%</b>

(1) Rent expense is added back to operating income to show the impact of owning versus leasing the related assets.

(2) Depreciation is based on the average of the last five fiscal quarters' ending capitalized operating lease obligations (see note 6) for the respective reporting periods with an assumed thirty-year useful life. This life assumption is based on our long-term participation in given markets though specific retail location lease commitments are generally 5 to 10 years at inception. This is subtracted from operating income to illustrate the impact of owning versus leasing the related assets.

(3) Reflects annual effective income tax rates, before discrete adjustments, of 24.4% and 26.3% for 2019 and 2018, respectively.

(4) Long-term debt includes existing finance lease liabilities.

(5) A multiple of eight times annual rent expense is used as an estimate for capitalizing our operating lease obligations. The methodology utilized aligns with the methodology of a nationally recognized credit rating agency.

(6) Average invested capital represents the average of the last five fiscal quarters' ending invested capital balances.

(7) ROIC equals NOPAT divided by average invested capital.

Note - Our ROIC calculation and data are considered non-GAAP financial measures and are not in accordance with, or preferable to, GAAP financial data. However, we are providing this information as we believe it facilitates analysis of the Company's financial performance by investors and financial analysts.

GAAP - generally accepted accounting principles in the U.S.

### **Off-Balance-Sheet Arrangements and Contractual Obligations**

As of September 28, 2019, we were not involved in any unconsolidated special purpose entity transactions. Other than our \$3 million in outstanding letters of credit, we do not have any off-balance-sheet financing.

There have been no material changes in our contractual obligations, other than in the ordinary course of business, since the end of fiscal 2018. See Note 5, *Credit Agreement*, of the Notes to our Condensed Consolidated Financial Statements for information regarding our credit agreement. See our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 for additional information regarding our other contractual obligations.

### **Critical Accounting Policies**

We discuss our critical accounting policies and estimates in *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the fiscal year ended December 29, 2018. There were no significant changes in our critical accounting policies since the end of fiscal 2018.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to changes in market-based short-term interest rates that will impact our net interest expense. If overall interest rates were one percentage point higher than current rates, our annual net income would decrease by \$1.6 million based on the \$214 million of borrowings under our revolving credit facility at September 28, 2019. We do not manage the interest-rate volatility risk of borrowings under our credit facility through the use of derivative instruments.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

#### **Changes in Internal Control**

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 28, 2019, 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**

We are involved from time to time in various legal proceedings arising in the ordinary course of our business, including primarily commercial, product liability, employment and intellectual property claims. In accordance with U.S. generally accepted accounting principles, we record a liability in our consolidated financial statements with respect to any of these matters when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. If a material loss is reasonably possible but not known or probable, and may be reasonably estimated, the estimated loss or range of loss is disclosed. With respect to currently pending legal proceedings, we have not established an estimated range of reasonably possible material losses either because we believe that we have valid defenses to claims asserted against us, the proceeding has not advanced to a stage of discovery that would enable us to establish an estimate, or the potential loss is not material. We currently do not expect the outcome of pending legal proceedings to have a material effect on our consolidated results of operations, financial position or cash flows. Litigation, however, is inherently unpredictable, and it is possible that the ultimate outcome of one or more claims asserted against us could adversely impact our consolidated results of operations, financial position or cash flows. We expense legal costs as incurred.

On September 18, 2018, two former Home Delivery team members filed suit, now venued in Superior Court in Fresno County, California, alleging representative claims on a purported class action basis under the California Labor Code Private Attorney General Act. While the two representative plaintiffs were in the Home Delivery workforce, the Complaint does not limit the purported plaintiff class to that group. The plaintiffs allege that Sleep Number failed or refused to adopt adequate practices, policies and procedures relating to wage payments, record keeping, employment disclosures, meal and rest breaks, among other claims, under California law. The Complaint sought damages in the form of civil penalties and plaintiffs' attorneys' fees, and expressly disclaims the recovery of any purported individual specific relief or underpaid wages. The parties tentatively reached a settlement pending Court approval, which includes the settlement and release of certain additional related claims. We intend to continue vigorously defending this matter in the event it does not settle.

On March 27, 2018, Level Sleep, LLC filed a patent infringement lawsuit against Sleep Number in the Federal District Court for the Eastern District of Texas. In its Complaint, Level Sleep claims that Sleep Number infringed two patents owned by Level Sleep, U.S. Patent Nos. 6,807,698 and 7,036,172 (the "Patents"), by, among other things, making, using, offering for sale, or selling within the United States, and/or importing into the United States, beds with sleep surfaces having foam with multiple zones in the longitudinal direction. Level Sleep has asserted that five non-360 beds no longer sold and two current non-360 beds infringe the Patents. Level Sleep seeks damages in the form of a reasonable royalty. Sleep Number has asserted that the Patents are invalid and that our products do not infringe the Patents. The case is scheduled for trial in February 2020. We intend to vigorously defend this matter.

### **ITEM 1A. RISK FACTORS**

Our business, financial condition and operating results are subject to a number of risks and uncertainties, including both those that are specific to our business and others that affect all businesses operating in a global environment. Investors should carefully consider the information in this report under the heading, *Management's Discussion and Analysis of Financial Condition and Results of Operations* and also the information under the heading, *Risk Factors* in our most recent Annual Report on Form 10-K. The risk factors discussed in the Annual Report on Form 10-K and in this Quarterly Report on Form 10-Q do not identify all risks that we face because our business operations could also be affected by additional risk factors that are not presently known to us or that we currently consider to be immaterial to our operations.

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

(a) – (b) Not applicable.

(c) Issuer Purchases of Equity Securities

<b>Fiscal Period</b>	<b>Total Number of Shares Purchased<sup>(1)(2)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(1)</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs<sup>(3)</sup></b>
June 30, 2019 through July 27, 2019	290,864	\$ 41.37	290,203	\$ 92,995,000
July 28, 2019 through August 24, 2019	280,514	\$ 45.34	279,600	80,316,000
August 25, 2019 through September 28, 2019	367,256	\$ 41.91	365,450	65,000,000
Total	938,634	\$ 42.77	935,253	\$ 65,000,000

<sup>(1)</sup> Under our Board-approved share repurchase program, we repurchased 935,253 shares of our common stock at a cost of \$40 million (based on trade dates) during the three months ended September 28, 2019.

<sup>(2)</sup> In connection with the vesting of employee restricted stock grants, we also repurchased 3,381 shares of our common stock at a cost of \$142 thousand during the three months ended September 28, 2019.

<sup>(3)</sup> Effective as of September 29, 2019, our Board approved an increase in the total remaining share repurchase authorization to \$500 million. There is no expiration date governing the period over which we can repurchase shares under our Board-approved share repurchase program. Any repurchased shares are constructively retired and returned to an unissued status.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

Not applicable.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
10.1	<a href="#">Third Amendment to Lease Agreement dated August 27, 2019 between the Company and IPT SALT LAKE CITY DC II LLC (successor in interest to CLFP – SLIC 8, L.P.)</a>
10.2	<a href="#">Form of Non-Statutory Stock Option Award Agreement (Employee) under the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan</a>
10.3	<a href="#">Form of Performance Adjusted Restricted Stock Unit Award Agreement (ROIC) (Senior Team) under the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan</a>
10.4	<a href="#">Form of Performance Adjusted Restricted Stock Unit Award Agreement under the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan</a>
10.5	<a href="#">Form of Restricted Stock Unit Award Agreement (Non-Employee Director) under the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan</a>
10.6	<a href="#">Form of Restricted Stock Unit Award Agreement (3-Year Ratable Vest) under the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan</a>
10.7	<a href="#">Form of Restricted Stock Unit Award Agreement (3-Year Cliff Vest) under the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan</a>
10.8	<a href="#">Form of Non-Statutory Stock Option Award Agreement (Non-Employee Director) under the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan</a>
31.1	<a href="#">Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350</a>
32.2	<a href="#">Certification of CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350</a>
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

**SIGNATURES**

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

**SLEEP NUMBER CORPORATION**  
(Registrant)

Dated: October 25, 2019

By: /s/ Shelly R. Ibach  
Shelly R. Ibach  
Chief Executive Officer  
(principal executive officer)

By: /s/ Robert J. Poirier  
Robert J. Poirier  
Chief Accounting Officer  
(principal accounting officer)

**THIRD AMENDMENT TO LEASE AGREEMENT**

THIS THIRD AMENDMENT TO LEASE AGREEMENT (this "Amendment") is dated as of August 27, 2019 (the "Effective Date"), and is entered into by and between IPT SALT LAKE CITY DC II LLC, a Delaware limited liability company ("Landlord"), and SLEEP NUMBER CORPORATION, a Minnesota corporation ("Tenant"), with reference to the following facts:

- A. On September 30, 1998, Prologis Development Services Incorporated ("Prologis"), predecessor-in-interest to Landlord, and Select Comfort Corporation ("SCC") entered into a Lease Agreement (the "Original Lease") for approximately 100,800 rentable square feet (the "Premises") in the building located at 675 North Wright Brothers Drive, Salt Lake City, Utah (the "Building").
- B. Prologis North American Properties Fund I LLC ("PNAPF") succeeded to the interest of Prologis under the Original Lease.
- C. On January 9, 2009, PNAPF and SCC entered into an Extension Agreement (the "Extension Agreement"). On May 20, 2010, PNAPF and SCC entered into a First Amendment to Lease Agreement (the "First Amendment").
- D. CLPF-SLIC 8, L.P. ("CLPF") purchased the Building and succeeded to the interest of PNAPF under the Original Lease, as so amended.
- E. On June 15, 2015, CLPF and SCC entered into a Second Amendment to Lease Agreement (the "Second Amendment"). The Original Lease, as amended by the Extension Agreement, the First Amendment, and the Second Amendment, is referred to herein as the "Lease".
- F. Landlord purchased the Building and succeeded to the interest of CLPF under the Lease.
- G. SCC changed its name to Sleep Number Corporation, a Minnesota corporation.
- H. The Lease Term is set to expire as of July 31, 2020.
- I. Landlord and Tenant desire to modify and amend the Lease to provide, among other things, for the extension of the Lease Term to July 31, 2025 and for the modification of the Base Rent and certain other terms, all as more particularly set forth in this Amendment.

NOW, THEREFORE, in consideration of the mutual covenants set forth herein and for other good and valuable consideration, the receipt whereof and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

- 1. Scope of Amendment; Defined Terms; Incorporation of Recitals. Except as expressly provided in this Amendment, the Lease shall remain in full force and effect in all respects, and the term "Lease" shall mean the Lease as modified by this Amendment. Capitalized terms used but not otherwise defined in this Amendment have the respective meanings given to

them in the Lease. The preamble and recitals set forth above are hereby incorporated into this Amendment by this reference in their entirety.

2. Modifications and Amendments to Lease. Notwithstanding anything in the Lease to the contrary, the Lease is hereby modified and amended as follows:

(a) Lease Term. The Lease Term is extended to expire on July 31, 2025 (the "Expiration Date"), with the period of time from August 1, 2020 (the "Renewal Date") through the revised Expiration Date now being known as the "Extension Term". During the Extension Term, all of the provisions of the Lease will apply, except as otherwise modified or amended in this Amendment.

(b) Monthly Base Rent. As of the Effective Date, the definition of Base Rent is amended so that, beginning on the Renewal Date, Tenant shall pay Base Rent for the Premises to Landlord in accordance with the following schedule through the remainder of the term of the Lease:

<u>Period</u>	<u>Monthly Payment</u>	<u>Annual Payment</u>
8/1/20 – 7/31/21	\$42,336.00	\$508,032.00
8/1/21 – 7/31/22	\$43,606.08	\$523,272.96
8/1/22 – 7/31/23	\$44,914.26	\$538,971.12
8/1/23 – 7/31/24	\$46,261.69	\$555,140.28
8/1/24 – 7/31/25	\$47,649.54	\$571,794.48

(c) Notices. Notwithstanding any contrary provision in the Lease, all notices to Landlord shall be addressed to:

Industrial Property Trust Inc.  
Attn: Scott Recknor  
SVP - Asset Management  
518 Seventeenth Street, 17th Floor  
Denver, Colorado 80202

With a copy to:

Industrial Property Trust Inc.  
Attn: Jonathan Linker  
Senior Real Estate Counsel  
518 Seventeenth Street, 17th Floor  
Denver, Colorado 80202

All notices to Tenant shall be addressed to:  
Sleep Number Corporation  
1001 Third Avenue South  
Minneapolis, MN 55404  
Attn: Corporate Counsel – Real Estate

- (d) Address for Payments. All amounts payable by Tenant to Landlord shall, until further notice from Landlord, be paid to Landlord pursuant to the following instructions:

If by ACH or Wire Transfer:

Account Name: Industrial Property Operating Partnership LP  
Financial Institution: Wells Fargo Bank, N.A.  
ABA Number: 121000248  
Account Number: 4598213866  
Reference: Property Number - 712701

If by check:

Industrial Property Operating Partnership LP  
P.O. Box 206918  
Dallas, TX 75320-6918  
Reference: Property Number - 712701

- (e) Renewal Option.

- (i) Provided no Event of Default exists and Tenant is occupying the entire Premises at the time of such election, Tenant may renew the Lease for one (1) additional period of five (5) years, by delivering written notice of the exercise thereof to Landlord not earlier than 12 months nor later than 9 months before the expiration of the Lease Term (the "Option Notification Period"). The Base Rent payable for each month during the extended Lease Term shall be the prevailing rental rate (the "Prevailing Rental Rate"), at the commencement of the extended Lease Term, for renewals of space similar to the Premises in buildings similar to the Building in the submarket in which the Building is located, and with the length of the extended Lease Term and the credit standing of Tenant to be taken into account. Within 30 days after receipt of Tenant's notice to renew, Landlord shall deliver to Tenant written notice of Landlord's determination of the Prevailing Rental Rate and shall advise Tenant of the required adjustment to Base Rent, if any, and the other terms and conditions offered. Tenant shall, within thirty (30) days after receipt of Landlord's notice, notify Landlord in writing whether Tenant accepts or rejects Landlord's determination of the Prevailing Rental Rate. If Tenant timely notifies Landlord that Tenant accepts Landlord's determination of the Prevailing Rental Rate, then, on or before the commencement date of the extended Lease Term, Landlord and Tenant shall execute an amendment to the Lease extending the Lease Term on the same terms provided in the Lease, except as follows:

- (1) Base Rent shall be adjusted to the Prevailing Rental Rate;

- (2) Tenant shall have no further renewal option unless expressly granted by Landlord in writing;  
and
- (3) Landlord shall lease to Tenant the Premises in their then-current condition, and Landlord shall not provide to Tenant any allowances (e.g., moving allowance, construction allowance, and the like) or other tenant inducements.
- (ii) If Tenant fails to timely notify Landlord in writing that Tenant accepts or rejects Landlord's determination of the Prevailing Rental Rate, time being of the essence with respect thereto, Tenant's rights under this Section shall terminate and Tenant shall have no right to renew the Lease.

(iii) Tenant's rights under this Section shall terminate if (1) the Lease or Tenant's right to possession of the Premises is terminated, (2) Tenant assigns any of its interest in the Lease or sublets any portion of the Premises (excluding a Tenant Affiliate), or (3) Tenant fails to timely exercise its option under this Section, time being of the essence with respect to Tenant's exercise thereof.

3. Condition of Premises. Tenant acknowledges that it currently occupies the Premises and agrees by remaining in the Premises that it accepts the Premises in their "as-is" condition, with no additional obligation on the part of Landlord to repair, remodel or refurbish the Premises in any respect, unless otherwise expressly provided in this Amendment.

4. Use. Notwithstanding anything to the contrary in the Lease, in no event shall any portion of the Premises be used for any marijuana or marijuana related business (including, but not limited to, the cultivation, manufacture, processing, storage or sale of cannabis or cannabis-related products).

5. Options. Except for the Renewal Option set forth in Section 2(e) above, all option rights granted to Tenant, if any, contained in the Lease, including, without limitation, options to extend or renew the term of the Lease or to expand the Premises or to terminate the Lease, are hereby deleted and are of no force and effect.

6. Payment of Commission. In connection with this Amendment, Tenant acknowledges that it has not used the services of a broker or other real estate agent or licensee other than CBRE, Inc. In the event of a claim for broker's fee, finder's fee, commission or other similar compensation in connection herewith based on any other relationship with or through Tenant, Tenant hereby agrees to protect, defend and indemnify Landlord against and hold Landlord harmless from any and all damages, liabilities, costs, expenses and losses (including, without limitation, reasonable attorneys' fees and costs) which Landlord may sustain or incur by reason of such claim.

7. Waiver. No failure or delay by a party to insist upon the strict performance of any term, condition or covenant of this Amendment, or to exercise any right, power or remedy hereunder shall constitute a waiver of the same or any other term of this Amendment or preclude

such party from enforcing or exercising the same or any such other term, conditions, covenant, right, power or remedy at any later time.

8. Ratification. As amended hereby the Lease is hereby ratified and shall remain in full force and effect. As of the execution hereof, Tenant represents, acknowledges and confirms to Landlord that Landlord has performed all obligations on its part under the Lease, there exists no breach, condition, state of facts or event that constitutes, or with the passing of time or the giving of notice, or both, would constitute a default by either Landlord or Tenant under the Lease and that the Lease, and all of its terms, conditions, covenants, agreements and provisions, except as modified hereby, are in full force and effect with no defenses or offsets (including any offsets against any rents or other sums payable by Tenant under the Lease) thereto.

9. Governing Law; Venue. This Amendment shall be construed and governed by the laws of the state where the Premises are located. Except to the extent required otherwise by applicable law, the venue for any action relating to this Amendment shall be brought solely and exclusively in the state and the county in which the Premises are located.

10. Tenant's Compliance with Law. Tenant shall procure at its sole expense any permits and licenses required for the transaction of business in the Premises and shall otherwise comply with all applicable federal, state, county and municipal laws, ordinances and governmental regulations.

11. Authority. This Amendment shall be binding upon and inure to the benefit of the parties, their respective heirs, legal representatives, successors and assigns. Each party hereto warrants that the person signing below on such party's behalf is authorized to do so and to bind such party to the terms of this Amendment.

12. Attorneys' Fees and Costs. In the event of any action at law or in equity between the parties to enforce any of the provisions hereof, the substantially non-prevailing party to such litigation shall pay to the substantially prevailing party all costs and expenses, including reasonable attorneys' fees (including costs and expenses incurred in connection with all appeals) incurred by the substantially prevailing party, and these costs, expenses and attorneys' fees may be included in and as part of the judgment.

13. Entire Agreement; No Amendment. This Amendment constitutes the entire agreement and understanding between the parties with respect to the subject of this amendment and shall supersede all prior written and oral agreements concerning this subject matter. This Amendment may not be amended, modified or otherwise changed in any respect whatsoever except by a writing duly executed by authorized representatives of Landlord and Tenant. Each party acknowledges that it has read this Amendment, fully understands all of this Amendment's terms and conditions, and executes this Amendment freely, voluntarily and with full knowledge of its significance. Each party to this Amendment has had the opportunity to receive the advice of counsel prior to the execution hereof.

14. Severability. If any provision of this Amendment or the application thereof to any person or circumstances shall be invalid or unenforceable to any extent, the remainder of this Amendment and the application of such provision to other persons or circumstances, other than

those to which it is held invalid, shall not be affected and shall be enforced to the furthest extent permitted by law.

15. Counterparts. This Amendment may be executed in counterparts and in facsimile or by PDF, and such counterparts together shall constitute but one original of the Amendment. Each counterpart shall be equally admissible in evidence, and each original shall fully bind each party who has executed it.
16. Agreement to Perform Necessary Acts. Each party agrees that upon demand, it shall promptly perform all further acts and execute, acknowledge, and deliver all further instructions, instruments and documents which may be reasonably necessary or useful to carry out the provisions of this Amendment.
17. Captions and Headings. The titles or headings of the various paragraphs hereof are intended solely for convenience of reference and are not intended and shall not be deemed to modify, explain or place any construction upon any of the provisions of this Amendment.
18. Move-Out Standards. Notwithstanding anything in the Lease (as amended hereby) to the contrary, at the expiration or earlier termination of the Lease, Tenant shall surrender the Premises broom-clean and in good condition, free of debris and of Tenant's personal property and equipment and in accordance with the Move-Out Standards set forth in Exhibit "A" to this Amendment, excepting reasonable wear and tear and losses required to be restored by Landlord under the Lease.
19. Work
  - (a) Tenant shall complete Tenant's Work (as defined in Exhibit "B") in accordance with the terms and conditions set forth in the Improvement Addendum attached hereto as Exhibit "B".
  - (b) Landlord will install a new roof membrane over the existing roof of the Building in accordance with Section 6 of the Second Amendment on or before December 31, 2019.
  - (c) Landlord will (i) repaint the exterior of the Building on or before December 31, 2020, and (ii) repaint the metal surfaces on the Building on or before December 31, 2019.

[Signatures on Following Page]

IN WITNESS WHEREOF, the undersigned have duly executed this Amendment as of the Effective Date.

**LANDLORD:**

IPT SALT LAKE CITY DC II LLC,  
a Delaware limited liability company

By: IPT Real Estate Holdco LLC,  
a Delaware limited liability company,  
its sole member

By: Industrial Property Operating Partnership LP,  
a Delaware limited partnership,  
its sole member

By: Industrial Property Trust Inc.,  
a Maryland corporation,  
its general partner

By: /s/ Mellissa Barrett  
Name: Mellissa Barrett  
Title: Vice President-Asset Management

**TENANT:**

SLEEP NUMBER CORPORATION,  
a Minnesota corporation

By: /s/ K Christopher White  
Name: Chris White  
Title: VP Manufacturing

**FORM OF NON-STATUTORY STOCK OPTION AGREEMENT**

THIS AGREEMENT is entered into and effective as of March 29, 2019 (the "Date of Grant"), by and between Sleep Number Corporation (the "Company") and (the "Grantee").

Unless defined in this Agreement, capitalized terms used in this Agreement shall have the meanings established in the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan (the "Plan").

The Company has adopted the Plan, which authorizes the grant of Non-Statutory Stock Options to Employees of the Company and its Subsidiaries. The Company desires to give the Grantee, an Employee of the Company, a proprietary interest in the Company and its Subsidiaries in recognition of the Grantee's contributions and as an added incentive to advance the interests of the Company and its Subsidiaries by granting to the Grantee Non-Statutory Stock Options pursuant to the Plan.

Accordingly, the parties agree as follows:

1. Terms of Grant of Options.

1.1 Type of Option. The Company hereby grants to the Grantee Non-Statutory Stock Options in the quantity and at the price listed below, subject to the vesting provisions and other terms and conditions of this Agreement (the "Options").

1.2 Total Shares of Common Stock. The grant of Options gives the Grantee the right to purchase up to \_\_\_\_\_ shares of the Company's common stock, par value \$0.01 per share (the "Common Stock").

1.3 Exercise Price of Option. The exercise price of the Options is \$47.00 per share.

1.4 Vesting Schedule. The Options granted under this Agreement will become exercisable, or "vest," in installments of one-third (1/3) of the total number of Options on each of the first three (3) anniversaries of the Date of Grant (the "Vesting Period") subject to the Grantee remaining in continuous employment or service with the Company through each of such vesting dates during the Vesting Period; provided, however, that such restrictions (the "Restrictions") will lapse and terminate prior to the end of the Vesting Period as set forth in Section 3 and Section 4 below (or as otherwise set forth in the Plan for any circumstance not contemplated by the terms of Section 3 and Section 4).

1.5 Expiration of Options. The Grantee's right to exercise the Options will terminate as to all unexercised Options at 5:00 p.m., Central Time, on March 29, 2029 (the "Expiration Date"), subject to earlier termination as described below or in the Plan.

1.6 Fractional Shares. The Grantee acknowledges that the Company will not issue or deliver fractional shares of Common Stock under this Agreement. All fractional shares will be rounded up to the nearest whole share.

2. Non-Compete Agreement as Consideration. In consideration for the grant of Options contemplated by Section 1 of this Agreement, the Grantee agrees to execute and be bound by the terms of the Employee Inventions, Confidentiality, Non-Compete and Mutual Arbitration Agreement (the “Non-Compete Agreement”) attached hereto. Failure to execute the Non-Compete Agreement will cause the Options to automatically terminate and be forfeited without any further action.

3. Death, Disability, or other Termination of Employment or Service. The vesting and termination provisions of the Options granted hereby will be impacted by the termination of the Grantee’s employment, depending on the reason for termination of the Grantee’s employment, as set forth below.

3.1 Death or Disability. In the event that the Grantee’s employment or service is terminated due to the Grantee’s death or Disability, the Restrictions applicable to the Options will immediately lapse and terminate and the Options will become immediately exercisable in full and will remain exercisable for up to two (2) years, but not beyond the Expiration Date.

3.2 Termination Due to Retirement.

(a) In the event that the Grantee’s employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee’s retirement at or beyond age fifty-five (55) and the Grantee has five (5) or more years of service with the Company prior to retirement, then the Grantee will have one (1) year, but not beyond the Expiration Date, to exercise the sum of (i) Options that had vested (if any) through the effective retirement date according to Section 1.4, plus (ii) a pro rata portion of Options that vest, pursuant to this provision, based on the number of calendar days elapsed since the most recent anniversary of the Date of Grant (the “Vesting Anniversary”), divided by the total number of calendar days in the Vesting Period (collectively, the “Pro Rata Options”). The remaining unvested Options will immediately terminate and be forfeited without notice of any kind.

For example, if the Grantee was granted 1,200 Options and retirement occurs 548 calendar days into the Vesting Period, assuming the Vesting Period contains 1,095 calendar days, the Grantee would have (i)  $1,200/3 = 400$  Options vested pursuant to Section 1.4, plus (ii)  $1,200 \times (548/1,095) = 201$  Pro Rata Options.

(b) In the event that the Grantee’s employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee’s retirement prior to age fifty-five (55) or the Grantee has fewer than five (5) years of service with the Company prior to retirement, all rights of the Grantee under the Plan and this Agreement relating to all Options with respect to which the Restrictions have not lapsed will immediately terminate and be forfeited without notice of any kind.

(c) In the event that the Grantee’s employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee’s retirement at or beyond age sixty (60) and the Grantee has five (5) or more years of service with the Company prior to retirement, the Grantee will become fully vested in, and have three (3) years, but not beyond the Expiration Date, to exercise all Options

awarded pursuant to this Agreement if the following criteria are met: (i) the Grantee provides written notice of the Grantee's intention to retire one (1) year before the Grantee's actual retirement date, and (ii) the Grantee's actual retirement date is at least one (1) year after the Date of Grant.

3.3 Voluntary Termination other than upon Retirement. If the Grantee voluntarily terminates his or her employment or service with the Company (other than as set forth in Section 3.2(a) or Section 3.2(c)), any Options that have vested pursuant to Section 1.4 as of the date of the Grantee's termination of employment or service will remain exercisable for up to three (3) months, but not beyond the Expiration Date, after the Grantee's employment or service ends. The Options that have not vested as of the date of the Grantee's termination of employment or service will immediately terminate and be forfeited without notice of any kind.

3.4 Termination by the Company other than for Cause or Adverse Action. If the Grantee's employment or service is terminated by the Company (other than for Cause or Adverse Action), Options that have already vested pursuant to Section 1.4 as of the date of the Grantee's termination of employment or service will remain exercisable for up to three (3) months, but not beyond the Expiration Date, after the Grantee's employment or service ends. The Options that have not vested as of the date of the Grantee's termination of employment or service will immediately terminate and be forfeited without notice of any kind.

3.5 Termination by the Company for Cause or Adverse Action. If the Grantee's employment or service is terminated by the Company or a Subsidiary for Cause or Adverse Action, all of the Grantee's rights under the Plan, this Agreement, and the Options granted hereby will immediately terminate and be forfeited without notice of any kind.

4. Forfeiture, Clawback, or Recoupment. In addition to the other rights set forth in the Plan belonging to the Committee, if it is determined by the Committee, acting in its sole discretion, that the Grantee has taken any action that would constitute Cause or Adverse Action or that is subject to any other or additional "clawback," forfeiture, or recoupment policy adopted by the Company, either prior to or after the date of this Agreement, or that the Grantee has violated the Non-Compete Agreement, as set forth in Section 2, (i) all of the Grantee's rights under the Plan and any agreements evidencing options granted under the Plan, including the Options evidenced by this Agreement, then held shall terminate upon the effectiveness of such Committee action without notice of any kind and will be forfeited; and (ii) the Committee, in its sole discretion, may require the Grantee to surrender and return, transfer, or assign to the Company all or any portion of the shares of common stock received, or to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by the Grantee or the Grantee's affiliate during the period beginning one (1) year prior to the Grantee's termination of employment or service with the Company, in connection with any options granted under the Plan, including the Options, or any shares of common stock issued upon the exercise or vesting of any Non-Statutory Stock Options granted under the Plan, including the Options. This Section 4 shall not apply and shall automatically become void *ab initio* following a Change in Control.

5. Notice. The Company is not required to give the Grantee notice of the termination of the Grantee's Options.

6. Exercise.

6.1 Manner of Exercise. An Option may be exercised by the Grantee in whole or in part from time to time, subject to the conditions contained in this Agreement and the Plan. The Options may be exercised by delivery in person, by facsimile or electronic transmission, or through the mail of written notice of exercise to the Company at its principal executive office in Minneapolis, Minnesota (or to the Company's designee, as may be established from time to time by the Company and communicated to the Grantee), and by paying in full the total exercise price for the shares of Common Stock underlying the Options.

6.2 Payment of Exercise Price. The total purchase price of the shares of Common Stock to be purchased upon exercise of an Option will be paid in cash, including check, bank draft, or money order, unless otherwise determined by the Committee or as otherwise provided for in the Plan.

7. Rights of the Grantee.

7.1 Limitations on Transfer. Except pursuant to testamentary will or the laws of descent and distribution, or as otherwise permitted by the Plan, prior to the exercise or vesting of Options, Options issued under the Plan will not be assignable or transferable by the Grantee or subjected to any lien, during the lifetime of the Grantee, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise. The Grantee may, however, designate a beneficiary, as provided for in the Plan.

7.2 Rights as a Shareholder. The Grantee will have no rights as a shareholder until the Grantee becomes the holder of record of shares of Common Stock issued upon the Grantee's exercise of the Options. As soon as reasonably possible after the satisfaction of any conditions to the effective issuance of shares of Common Stock in settlement of the Options, the shares will be issued by the Company.

7.3 Shares Purchased. Following the Grantee's exercise of the Grantee's rights to purchase shares of Common Stock under this Agreement, the shares of Common Stock purchased by the Grantee will be freely tradable, subject to the Company's policies and the Securities and Exchange Commission ("SEC") rules regarding insider trading. Executive officers and members of the Company's Board of Directors are required to comply with SEC Rule 144 in connection with any sale of shares received upon the exercise of any stock options.

7.4 Employment or Service. Nothing in this Agreement will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of the Grantee at any time, nor confer upon the Grantee any right to continue in the employment or service with the Company or any Subsidiary at any particular position or rate of pay or for any particular period of time.

8. Taxes.

8.1 Withholding Taxes. The Company is entitled to (i) withhold and deduct from future wages of the Grantee (or from other amounts that may be due and owing to the Grantee from the Company), or make other arrangements for the collection of all amounts the

Company determines are legally required to satisfy any federal, state, or local withholding and employment-related tax requirements attributable to the exercise of the Options, or (ii) require the Grantee promptly to remit the amount of such withholding to the Company. In the event that the Company is unable to withhold such amounts, for whatever reason, the Grantee agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under federal, state, or local law.

8.2 Income Tax Implications. There may be income tax consequences resulting from the exercise of the Options and/or sale of the shares of Common Stock received upon the exercise of the Options. The Grantee is urged to consult with his or her individual tax advisor regarding any tax consequences relating to these transactions. The Company accepts no responsibility for the income tax implications of the transactions resulting from this agreement, except as set forth in Section 8.1.

9. Adjustments. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, or divestiture (including a spin-off), or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Grantee, will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) subject to this Agreement.

10. Subject to Plan. The Options granted pursuant to this Agreement have been granted under the Plan and, except as otherwise expressly provided in this agreement, are subject to all of the terms and conditions of the Plan. In addition, the Grantee, by execution hereof, acknowledges having received a copy of the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is not authorized under the Plan, the terms of the Plan will prevail.

11. Nature of Grant. By accepting the Options, the Grantee acknowledges, understands, and agrees that:

11.1 The grant of Options under this Agreement is made voluntarily by the Company under the Plan, which is established by and subject to the discretion of the Committee, and the Grantee's participation in the Plan is voluntary.

11.2 The Options granted by this Agreement are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension, or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company.

11.3 The future value of the Options or Common Stock underlying the Options is uncertain and cannot be predicted. If the underlying shares of Common Stock do not increase in value, the Option will have no value.

11.4 Other than provided in the Plan or in this Agreement, the Options granted to the Grantee do not create any claim or entitlement to compensation or damages arising from forfeiture of the Options.

12. Miscellaneous.

12.1 Binding Effect. This Agreement will be binding upon the heirs, executors, administrators, and successors of the parties to this Agreement.

12.2 Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota, without regard to conflicts of laws provisions. Any legal proceeding related to this Agreement will be brought in an appropriate Minnesota court and the parties to this Agreement consent to the exclusive jurisdiction of the court for this purpose.

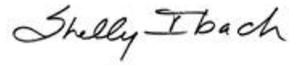
12.3 Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and vesting of the Options and the administration of the Plan and supersede all prior agreements, arrangements, plans, and understandings relating to the grant and vesting of the Options and the administration of the Plan.

12.4 Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified, or canceled only by a written instrument executed by the parties to this Agreement or, in the case of a waiver, by the party waiving compliance.

12.5 Code Section 409A. Payments of amounts under this Agreement are intended to be exempt from the requirements of Code section 409A, and this Agreement shall in all respects be administered and construed to give effect to such intent.

The parties hereto have executed this Agreement effective the day and year first above written.

SLEEP NUMBER CORPORATION



Shelly Ibach  
President and CEO

By execution of this Agreement,  
the Grantee acknowledges having  
received a copy of the Plan.

GRANTEE

(Signature)

(Name and Address)

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**PERFORMANCE ADJUSTED  
RESTRICTED STOCK UNIT AWARD AGREEMENT**

THIS AGREEMENT is entered into and effective as of March 29, 2019 (the "Date of Grant"), by and between Sleep Number Corporation (the "Company") and (the "Grantee").

The Company has adopted the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan (the "Plan") authorizing the grant of Restricted Stock Unit Awards to employees, non-employee directors and consultants of the Company and its Subsidiaries (as defined in the Plan).

The Company desires to give the Grantee a proprietary interest in the Company and an added incentive to advance the interests of the Company by granting to the Grantee a Restricted Stock Unit Award pursuant to the Plan.

Accordingly, the parties agree as follows:

1. Grant of Award Units and Performance Adjustments.

1.1 Grant of Award Units The Company hereby grants to the Grantee a Restricted Stock Unit Award (the "Award") consisting of \_\_\_\_\_ units (the "Award Units") that will be settled in shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), subject to the terms, conditions and restrictions set forth below and in the Plan. Reference in this Agreement to the Award Units or the Adjusted Award Units (as defined in Section 1.2 of this Agreement) will be deemed to include the Dividend Proceeds (as defined in Section 3.3 of this Agreement) with respect to such Award Units or Adjusted Award Units as provided in Section 3.3 of this Agreement.

1.2 Performance Adjustments. The number of Award Units granted hereunder is subject to adjustment based on the Company's level of achievement versus annual Net Sales growth goals and annual NOP growth goals for the 2019, 2020 and 2021 fiscal years (the "Performance Period"). (For purposes of this Agreement, "NOP" will be defined as Net Operating Income). The Net Sales growth goals and NOP growth goals will be equally weighted.

The annual Net Sales growth goals, the annual NOP growth goals and the corresponding performance adjustment multiples are as follows:

	Annual Growth Goals over the Performance Period (2019 thru 2021 fiscal years)		Payout – as Multiple of Award Units to Vest
	Net Sales (50%)	NOP (50%)	
Threshold	3%	4%	0.5X
Target	5%	9%	1.0X
Maximum	12%	20%	2.0X

The calculation of the “Adjusted Award Units” based on performance versus these growth goals will be determined as follows:

(a) The Company’s actual annual growth will be measured for each of the two (2) performance goals and for each of the three (3) fiscal years of the Performance Period;

(b) A payout multiple will be determined for each performance goal and for each fiscal year, based on interpolation between the performance goals in the foregoing table (performance relative to a performance goal that is below the threshold for a fiscal year will result in a payout multiple of zero (0) for that performance goal for that fiscal year); and

(c) The mean, or average, of the resulting six (6) payout multiples will be applied to the number of Award Units to determine the number of “Adjusted Award Units.”

For example, if the annual Net Sales growth rate in 2019 is 5%, the multiple for that performance goal for that year will be 1.0X; and if the annual NOP growth rate in 2019 is 14.5%, the multiple for that performance goal for that year will be 1.5X. Similar multiples will be determined for each performance goal and for each of the following fiscal years. The resulting six (6) payout multiples will then be averaged to determine the final payout multiple. This final payout multiple times the number of Award Units originally granted results in the number of Adjusted Award Units that would vest, subject to all of the other proration and vesting provisions set forth in this Agreement.

In order to reduce the potential impact of volatility in NOP results, the annual NOP percentage growth rate will not in any case be determined from a base NOP level that is less than 50% of the 2018 NOP level. For example, if 2019 NOP is less than 50% of the 2018 NOP level, then the annual NOP percentage growth rate for 2020 will be determined from a base of 50% of the 2018 NOP level, rather than from the actual 2019 NOP level.

The “Adjusted Award Units” will be subject to reduction for failure to generate Return on Invested Capital (ROIC) that exceeds Weighted Average Cost of Capital by at least 300 basis points (“bps”), as outlined in the table below. The measurement will be based on an average of the basis points difference between annual ROIC and WACC for the three fiscal years 2019, 2020, and 2021.

<b>ROIC Basis Points difference versus WACC</b> (e.g., ROIC of 12% vs. WACC of 10% = +200 bps)	<b>Reduction to Final Payout</b>
0 bps or lower (i.e., ROIC at or below WACC)	-20% of target award
1 to 99 bps	-15% of target award
100 to 199 bps	-10% of target award
200 to 299 bps	-5% of target award
300 bps or greater	No reduction

For the purpose of this calculation, ROIC shall be defined as detailed in the annual 10-K disclosure.

For the purpose of this calculation, WACC shall be defined as detailed in Attachment A.

The Company's actual performance relative to the performance goals set forth above and the calculation of the Adjusted Award Units shall be determined by the Management Development and Compensation Committee (the "Committee") of the Board of Directors following the conclusion of the Performance Period. The Committee's determination shall be final and conclusive for all purposes under this Agreement. The number of Award Units resulting after adjustment as described above will be referred to herein as the "Adjusted Award Units."

1.3 Restrictive Covenant Agreement. In consideration for the grant of this Award, Grantee agrees to execute and be bound by the terms of the Employee Inventions, Confidentiality, Non-Compete and Mutual Arbitration Agreement (the "Non-Compete Agreement") attached hereto and Grantee acknowledges that Grantee's failure to execute the Non-Compete Agreement will cause this Award to automatically terminate and be forfeited without any further action.

2. Grant Restriction.

2.1 Restriction and Forfeiture. The Grantee's right to the Award Units or the Adjusted Award Units and the shares of Common Stock issuable under the Award Units or Adjusted Award Units will be subject to the Grantee remaining in continuous employment or service with the Company or any Subsidiary for a period of three (3) years (the "Restriction Period") following the Date of Grant; provided, however, that such employment/service period restrictions (the "Restrictions") will lapse and terminate prior to end of the Restriction Period as set forth in Section 2.2 below (or as otherwise set forth in the Plan for any circumstance not contemplated by the terms of Section 2.2).

2.2 Death, Disability or other Termination of Employment or Service.

(a) Death. In the event of the Grantee's death during the Restriction Period and prior to the Grantee's termination of employment or other service, the Restrictions applicable to the Award Units or Adjusted Award Units will immediately lapse and terminate and the shares of Common Stock to be issued in settlement of the Award Units will be issued within 90 days of the Grantee's death, with the performance adjustment determination related to any incomplete fiscal year(s) within the Performance Period deemed to be satisfied at the target level, with no reduction based on ROIC performance.

(b) Disability. In the event of the Grantee's Disability (as defined by the Plan) during the Restriction Period and prior to the Grantee's termination of employment or other service, the Grantee will become fully vested in the Award Units pending completion of the Performance Period and final determination of the Adjusted Award Units. The shares of Common Stock to be issued in settlement of the Adjusted Award Units will be retained and held by the Company pending the final determination of the Adjusted Award Units and will be issued within 90 days of the end of the Restriction Period.

(c) Termination Due to Retirement.

(i) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee's retirement at or beyond age fifty-five (55) and the Grantee has five (5) or more years of service with the Company prior to retirement, the Grantee will become vested in the Award Units pro rata based on the number of calendar days elapsed in the Restriction Period as of the date of retirement (*e.g.*, If the Grantee was granted 1,200 Award Units, and retirement occurs 730 calendar days into the 1,095 calendar days vesting period, then the Grantee will become vested with respect to an aggregate of 800 Award Units and the remaining 400 Award Units will terminate immediately without notice of any kind and will be forfeited) pending completion of the Performance Period and final determination of the Adjusted Award Units.

(ii) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee's retirement prior to age fifty-five (55) or the Grantee has fewer than five (5) years of service with the Company prior to retirement, all rights of the Grantee under the Plan and this Agreement relating to all Award Units with respect to which the Restrictions have not lapsed will terminate immediately without notice of any kind and will be forfeited.

(iii) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee's retirement at or beyond age sixty (60) and the Grantee has five (5) or more years of service with the Company prior to retirement, the Grantee will become fully vested in the Award Units pending completion of the Performance Period and final determination of the Adjusted Award Units if the following criteria are met: a) Grantee provides written notice of Grantee's intention to retire one year before Grantee's actual retirement date, and b) Grantee's actual retirement date is at least one year after the Date of Grant.

(iv) The shares of Common Stock to be issued in settlement of the Adjusted Award Units pursuant to paragraphs (i) or (iii) above will be retained and held by the Company pending the final determination of the Adjusted Award Units and will be issued within 90 days of the end of the Restriction Period.

(d) Termination for Reasons other than Death, Disability or Retirement. In the event the Grantee's employment or other service with the Company and all Subsidiaries is terminated for any reason other than death, Disability or retirement as provided above, or the Grantee is in the employ or service of a Subsidiary and the Subsidiary ceases to be a Subsidiary of the Company (unless the Grantee continues in the employ or service of the Company or another Subsidiary), all rights of the Grantee under this Agreement relating to Award Units with respect to which the Restrictions have not lapsed will terminate immediately without notice of any kind, and will be forfeited.

3. Issuance of Shares.

3.1 Timing. Vested Award Units or Adjusted Award Units shall be converted to shares of Common Stock on a one-for-one basis and such shares shall be issued as soon as reasonably possible, but not more than 90 days, after the end of the Restriction Period, subject to the provisions set forth above applicable to vesting events that occur prior to the end of the Restriction Period.

3.2 Limitations on Transfer. Award Units or Adjusted Award Units will not be assignable or transferable by the Grantee, either voluntarily or involuntarily, and may not be subjected to any lien, directly or indirectly, by operation of law or otherwise. Any attempt to transfer, assign or encumber the Award Units or Adjusted Award Units other than in accordance with this Agreement and the Plan will be null and void and will void the Award, and all Award Units or Adjusted Award Units for which the Restrictions have not lapsed will be forfeited and immediately returned to the Company.

3.3 Dividends and Other Distributions. The Award Units are being granted with an equal number of dividend equivalents. Accordingly, the Grantee is entitled to receive an additional Award Unit with a value equal to any dividends or distributions (including, without limitation, any cash dividends, stock dividends or dividends in kind, the proceeds of any stock split or the proceeds resulting from any changes or exchanges described in Section 6 of this Agreement, all of which are referred to herein collectively as the "Dividend Proceeds") that are paid or payable with respect to one share of Common Stock for each Award Unit which will be subject to the same rights, restrictions and performance adjustments under this Agreement as the Award Units to which such dividends or distributions relate. The number of additional Award Units to be received as dividend equivalents for each Award Unit shall be determined by dividing the cash dividend per share by the Fair Market Value of one share of Common Stock on the dividend or distribution payment date. All such additional Award Units received as dividend equivalents will be subject to the same restrictions and performance adjustments as the Award Units to which such Dividend Proceeds relate.

3.4 Fractional Shares. The Grantee acknowledges that the Company will not issue or deliver fractional shares of Common Stock under this Agreement. All fractional shares will be rounded up to the nearest whole share.

4. Rights of Grantee.

4.1 Employment or Service. Nothing in this Agreement will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of the Grantee at any time, nor confer upon the Grantee any right to continue in the employment or service with the Company or any Subsidiary at any particular position or rate of pay or for any particular period of time.

4.2 Rights as a Shareholder. The Grantee will have no rights as a shareholder until the Grantee becomes the holder of record of shares of Common Stock issued in settlement of the Adjusted Award Units. As soon as practicable after the satisfaction of any conditions to the effective issuance of shares of Common Stock in settlement of the Adjusted Award Units, the Grantee will be recorded on the books of the Company as the owner of such shares, and the

Company will issue one or more duly issued and executed stock certificates evidencing the shares.

5. Withholding Taxes. The Company is entitled to (a) withhold and deduct from future wages of the Grantee (or from other amounts that may be due and owing to the Grantee from the Company), or to withhold from the shares of Common Stock that would otherwise be determined to be paid to the Company out of Dividend Proceeds, or make other arrangements for the collection of all amounts the Company reasonably determines are required to satisfy any federal, state or local withholding and employment-related tax requirements attributable to the receipt of the Award, the receipt of dividends or distributions on Award Units or Adjusted Award Units, or the lapse or termination of the Restrictions applicable to Award Units or Adjusted Award Units, or (b) require the Grantee promptly to remit the amount of such withholding to the Company. In the event that the Company is unable to withhold such amounts, for whatever reason, the Grantee agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under federal, state or local law.

6. Adjustments. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering or divestiture (including a spin-off) or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Grantee, will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) subject to this Award.

7. Subject to Plan. The Award and the Award Units granted pursuant to this Agreement have been granted under, and are subject to the terms of, the Plan. The terms of the Plan are incorporated by reference in this Agreement in their entirety. In addition, the Grantee, by execution hereof, acknowledges having received a copy of the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is not authorized by or is inconsistent with the terms of the Plan, the terms of the Plan will prevail.

8. Forfeiture, Clawback or Recoupment. In addition to the other rights of the Committee under the Plan, if Grantee is determined by the Committee, acting in its sole discretion, to have taken any action that would constitute Adverse Action or Cause as defined under the Plan, or that is subject to any other or additional "clawback", forfeiture or recoupment policy adopted by the Company, either prior to or after the date of this Agreement, or to have violated the Non-Compete Agreement, as defined in Section 1.3, (a) all of Grantee's rights under the Plan and any agreements evidencing an Award granted under the Plan, including this Agreement evidencing this Award, then held by Grantee shall terminate and be forfeited upon the effectiveness of such Committee action, and without notice of any kind, and (b) the Committee in its sole discretion may require Grantee to surrender and return, transfer or assign to the Company all or any portion of the shares of Common Stock received, or to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by Grantee or Grantee's affiliate, during the period beginning one (1) year prior to your termination of employment or service with the Employer, in connection with any Awards granted under the Plan, including this Award, or any shares of Common Stock issued upon the exercise or vesting of any Awards, including this

Award. This Section 8 shall not apply and shall automatically become void *ab initio* following a Change of Control.

9. Miscellaneous.

9.1 Binding Effect. This Agreement will be binding upon the heirs, executors, administrators and successors of the parties to this Agreement.

9.2 Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota, without regard to conflicts of laws provisions. Any legal proceeding related to this Agreement will be brought in an appropriate Minnesota court and the parties to this Agreement consent to the exclusive jurisdiction of the court for this purpose.

9.3 Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and vesting of this Award and the administration of the Plan and supersede all prior agreements, arrangements, plans and understandings relating to the grant and vesting of this Award and the administration of the Plan.

9.4 Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified or canceled only by a written instrument executed by the parties to this Agreement or, in the case of a waiver, by the party waiving compliance.

9.5 Code Section 409A. Payment of amounts under this Agreement are intended to comply with the requirements of Code section 409A and this Agreement shall in all respects be administered and construed to give effect to such intent. The Committee in its sole discretion may accelerate or delay distribution of any shares in payment of amounts due under this Agreement if and to the extent allowed under Code section 409A.

The parties hereto have executed this Agreement effective the day and year first above written.

SLEEP NUMBER CORPORATION



Shelly Ibach  
President and CEO

By execution of this Agreement,  
the Grantee acknowledges having  
received a copy of the Plan.

GRANTEE

(Signature)

(Name and Address)

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**PERFORMANCE ADJUSTED  
RESTRICTED STOCK UNIT AWARD AGREEMENT**

THIS AGREEMENT is entered into and effective as of \_\_\_\_\_, 2019 (the “Date of Grant”), by and between Sleep Number Corporation (the “Company”) and (the “Grantee”).

The Company has adopted the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan (the “Plan”) authorizing the grant of Restricted Stock Unit Awards to employees, non-employee directors and consultants of the Company and its Subsidiaries (as defined in the Plan).

The Company desires to give the Grantee a proprietary interest in the Company and an added incentive to advance the interests of the Company by granting to the Grantee a Restricted Stock Unit Award pursuant to the Plan.

Accordingly, the parties agree as follows:

1. Grant of Award Units and Performance Adjustments.

1.1 Grant of Award Units The Company hereby grants to the Grantee a Restricted Stock Unit Award (the “Award”) consisting of units (the “Award Units”) that will be settled in shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”), subject to the terms, conditions and restrictions set forth below and in the Plan. Reference in this Agreement to the Award Units or the Adjusted Award Units (as defined in Section 1.2 of this Agreement) will be deemed to include the Dividend Proceeds (as defined in Section 3.3 of this Agreement) with respect to such Award Units or Adjusted Award Units as provided in Section 3.3 of this Agreement.

1.2 Performance Adjustments. The number of Award Units granted hereunder is subject to adjustment based on the Company’s level of achievement versus annual Net Sales growth goals and annual NOP growth goals for the 2019, 2020 and 2021 fiscal years (the “Performance Period”). (For purposes of this Agreement, “NOP” will be defined as Net Operating Income). The Net Sales growth goals and NOP growth goals will be equally weighted.

The annual Net Sales growth goals, the annual NOP growth goals and the corresponding performance adjustment multiples are as follows:

	Annual Growth Goals over the Performance Period (2019 thru 2021 fiscal years)		Payout – as Multiple of Award Units to Vest
	Net Sales (50%)	NOP (50%)	
Threshold	3%	4%	0.5X
Target	5%	9%	1.0X
Maximum	12%	20%	2.0X

The calculation of the “Adjusted Award Units” based on performance versus these growth goals will be determined as follows:

- (a) The Company’s actual annual growth will be measured for each of the two (2) performance goals and for each of the three (3) fiscal years of the Performance Period;
- (b) A payout multiple will be determined for each performance goal and for each fiscal year, based on interpolation between the performance goals in the foregoing table (performance relative to a performance goal that is below the threshold for a fiscal year will result in a payout multiple of zero (0) for that performance goal for that fiscal year); and
- (c) The mean, or average, of the resulting six (6) payout multiples will be applied to the number of Award Units to determine the number of “Adjusted Award Units.”

For example, if the annual Net Sales growth rate in 2019 is 5%, the multiple for that performance goal for that year will be 1.0X; and if the annual NOP growth rate in 2019 is 14.5%, the multiple for that performance goal for that year will be 1.5X. Similar multiples will be determined for each performance goal and for each of the following fiscal years. The resulting six (6) payout multiples will then be averaged to determine the final payout multiple. This final payout multiple times the number of Award Units originally granted results in the number of Adjusted Award Units that would vest, subject to all of the other proration and vesting provisions set forth in this Agreement.

In order to reduce the potential impact of volatility in NOP results, the annual NOP percentage growth rate will not in any case be determined from a base NOP level that is less than 50% of the 2018 NOP level. For example, if 2019 NOP is less than 50% of the 2018 NOP level, then the annual NOP percentage growth rate for 2020 will be determined from a base of 50% of the 2018 NOP level, rather than from the actual 2019 NOP level.

The Company’s actual performance relative to the performance goals set forth above and the calculation of the Adjusted Award Units shall be determined by the Management Development and Compensation Committee (the “Committee”) of the Board of Directors following the conclusion of the Performance Period. The Committee’s determination shall be final and conclusive for all purposes under this Agreement. The number of Award Units resulting after adjustment as described above will be referred to herein as the “Adjusted Award Units.”

1.3 Restrictive Covenant Agreement. In consideration for the grant of this Award, Grantee agrees to execute and be bound by the terms of the Employee Inventions, Confidentiality, Non-Compete and Mutual Arbitration Agreement (the “Non-Compete Agreement”) attached hereto and Grantee acknowledges that Grantee’s failure to execute the Non-Compete Agreement will cause this Award to automatically terminate and be forfeited without any further action.

2. Grant Restriction.

2.1 Restriction and Forfeiture. The Grantee's right to the Award Units or the Adjusted Award Units and the shares of Common Stock issuable under the Award Units or Adjusted Award Units will be subject to the Grantee remaining in continuous employment or service with the Company or any Subsidiary for a period of three (3) years (the "Restriction Period") following the Date of Grant; provided, however, that such employment/service period restrictions (the "Restrictions") will lapse and terminate prior to end of the Restriction Period as set forth in Section 2.2 below (or as otherwise set forth in the Plan for any circumstance not contemplated by the terms of Section 2.2).

2.2 Death, Disability or other Termination of Employment or Service.

(a) Death. In the event of the Grantee's death during the Restriction Period and prior to the Grantee's termination of employment or other service, the Restrictions applicable to the Award Units or Adjusted Award Units will immediately lapse and terminate and the shares of Common Stock to be issued in settlement of the Award Units will be issued within 90 days of the Grantee's death, with the performance adjustment determination related to any incomplete fiscal year(s) within the Performance Period deemed to be satisfied at the target level.

(b) Disability. In the event of the Grantee's Disability (as defined by the Plan) during the Restriction Period and prior to the Grantee's termination of employment or other service, the Grantee will become fully vested in the Award Units pending completion of the Performance Period and final determination of the Adjusted Award Units. The shares of Common Stock to be issued in settlement of the Adjusted Award Units will be retained and held by the Company pending the final determination of the Adjusted Award Units and will be issued within 90 days of the end of the Restriction Period.

(c) Termination Due to Retirement.

(i) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee's retirement at or beyond age fifty-five (55) and the Grantee has five (5) or more years of service with the Company prior to retirement, the Grantee will become vested in the Award Units pro rata based on the number of calendar days elapsed in the Restriction Period as of the date of retirement (*e.g.*, If Grantee was granted 1,200 Award Units, and if retirement occurs 730 calendar days into the 1,095 calendar days vesting period, then the Grantee will become vested with respect to an aggregate of 800 Award Units and the remaining 400 Award Units will terminate immediately without notice of any kind and will be forfeited) pending completion of the Performance Period and final determination of the Adjusted Award Units.

(ii) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee's retirement prior to age fifty-five (55) or the Grantee has fewer than five (5) years of service with the Company prior to retirement, all rights of the Grantee under the Plan and this Agreement relating to all Award Units with respect to which the Restrictions

have not lapsed will terminate immediately without notice of any kind and will be forfeited.

(iii) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee's retirement at or beyond age sixty (60) and the Grantee has five (5) or more years of service with the Company prior to retirement, the Grantee will become fully vested in the Award Units pending completion of the Performance Period and final determination of the Adjusted Award Units if the following criteria are met: a) Grantee provides written notice of Grantee's intention to retire one year before Grantee's actual retirement date, and b) Grantee's actual retirement date is at least one year after the Date of Grant.

(iv) The shares of Common Stock to be issued in settlement of the Adjusted Award Units pursuant to paragraphs (i) or (iii) above will be retained and held by the Company pending the final determination of the Adjusted Award Units and will be issued within 90 days of the end of the Restriction Period.

(d) Termination for Reasons other than Death, Disability or Retirement. In the event the Grantee's employment or other service with the Company and all Subsidiaries is terminated for any reason other than death, Disability or retirement as provided above, or the Grantee is in the employ or service of a Subsidiary and the Subsidiary ceases to be a Subsidiary of the Company (unless the Grantee continues in the employ or service of the Company or another Subsidiary), all rights of the Grantee under this Agreement relating to Award Units with respect to which the Restrictions have not lapsed will terminate immediately without notice of any kind, and will be forfeited.

### 3. Issuance of Shares.

3.1 Timing. Vested Award Units or Adjusted Award Units shall be converted to shares of Common Stock on a one-for-one basis and such shares shall be issued as soon as reasonably possible, but not more than 90 days, after the end of the Restriction Period, subject to the provisions set forth above applicable to vesting events that occur prior to the end of the Restriction Period.

3.2 Limitations on Transfer. Award Units or Adjusted Award Units will not be assignable or transferable by the Grantee, either voluntarily or involuntarily, and may not be subjected to any lien, directly or indirectly, by operation of law or otherwise. Any attempt to transfer, assign or encumber the Award Units or Adjusted Award Units other than in accordance with this Agreement and the Plan will be null and void and will void the Award, and all Award Units or Adjusted Award Units for which the Restrictions have not lapsed will be forfeited and immediately returned to the Company.

3.3 Dividends and Other Distributions. The Award Units are being granted with an equal number of dividend equivalents. Accordingly, the Grantee is entitled to receive an additional Award Unit with a value equal to any dividends or distributions (including, without limitation, any cash dividends, stock dividends or dividends in kind, the proceeds of any stock split or the proceeds resulting from any changes or exchanges described in Section 6 of this Agreement, all of which are referred to herein collectively as the "Dividend Proceeds") that are

paid or payable with respect to one share of Common Stock for each Award Unit which will be subject to the same rights, restrictions and performance adjustments under this Agreement as the Award Units to which such dividends or distributions relate. The number of additional Award Units to be received as dividend equivalents for each Award Unit shall be determined by dividing the cash dividend per share by the Fair Market Value of one share of Common Stock on the dividend or distribution payment date. All such additional Award Units received as dividend equivalents will be subject to the same restrictions and performance adjustments as the Award Units to which such Dividend Proceeds relate.

3.4 Fractional Shares. The Grantee acknowledges that the Company will not issue or deliver fractional shares of Common Stock under this Agreement. All fractional shares will be rounded up to the nearest whole share.

#### 4. Rights of Grantee.

4.1 Employment or Service. Nothing in this Agreement will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of the Grantee at any time, nor confer upon the Grantee any right to continue in the employment or service with the Company or any Subsidiary at any particular position or rate of pay or for any particular period of time.

4.2 Rights as a Shareholder. The Grantee will have no rights as a shareholder until the Grantee becomes the holder of record of shares of Common Stock issued in settlement of the Adjusted Award Units. As soon as practicable after the satisfaction of any conditions to the effective issuance of shares of Common Stock in settlement of the Adjusted Award Units, the Grantee will be recorded on the books of the Company as the owner of such shares, and the Company will issue one or more duly issued and executed stock certificates evidencing the shares.

#### Withholding Taxes.

The Company is entitled to (a) withhold and deduct from future wages of the Grantee (or from other amounts that may be due and owing to the Grantee from the Company), or to withhold from the shares of Common Stock that would otherwise be determined to be paid to the Company out of Dividend Proceeds, or make other arrangements for the collection of all amounts the Company reasonably determines are required to satisfy any federal, state or local withholding and employment-related tax requirements attributable to the receipt of the Award, the receipt of dividends or distributions on Award Units or Adjusted Award Units, or the lapse or termination of the Restrictions applicable to Award Units or Adjusted Award Units, or (b) require the Grantee promptly to remit the amount of such withholding to the Company. In the event that the Company is unable to withhold such amounts, for whatever reason, the Grantee agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under federal, state or local law.

#### Adjustments.

In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering or divestiture (including a spin-off) or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Grantee, will make appropriate adjustment (which determination

will be conclusive) as to the number and kind of securities or other property (including cash) subject to this Award.

Subject to Plan.

The Award and the Award Units granted pursuant to this Agreement have been granted under, and are subject to the terms of, the Plan. The terms of the Plan are incorporated by reference in this Agreement in their entirety. In addition, the Grantee, by execution hereof, acknowledges having received a copy of the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is not authorized by or is inconsistent with the terms of the Plan, the terms of the Plan will prevail.

Forfeiture, Clawback or Recoupment

. In addition to the other rights of the Committee under the Plan, if Grantee is determined by the Committee, acting in its sole discretion, to have taken any action that would constitute Adverse Action or Cause as defined under the Plan, or that is subject to any other or additional “clawback”, forfeiture or recoupment policy adopted by the Company, either prior to or after the date of this Agreement, or to have violated the Non-Compete Agreement, as defined in Section 1.3, (a) all of Grantee’s rights under the Plan and any agreements evidencing an Award granted under the Plan, including this Agreement evidencing this Award, then held by Grantee shall terminate and be forfeited upon the effectiveness of such Committee action, and without notice of any kind, and (b) the Committee in its sole discretion may require Grantee to surrender and return, transfer or assign to the Company all or any portion of the shares of Common Stock received, or to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by Grantee or Grantee’s affiliate, during the period beginning one (1) year prior to your termination of employment or service with the Employer, in connection with any Awards granted under the Plan, including this Award, or any shares of Common Stock issued upon the exercise or vesting of any Awards, including this Award. This Section 8 shall not apply and shall automatically become void *ab initio* following a Change of Control.

9. Miscellaneous.

9.1 Binding Effect. This Agreement will be binding upon the heirs, executors, administrators and successors of the parties to this Agreement.

9.2 Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota, without regard to conflicts of laws provisions. Any legal proceeding related to this Agreement will be brought in an appropriate Minnesota court and the parties to this Agreement consent to the exclusive jurisdiction of the court for this purpose.

9.3 Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and vesting of this Award and the administration of the Plan and supersede all prior agreements, arrangements, plans and understandings relating to the grant and vesting of this Award and the administration of the Plan.

9.4 Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified or canceled only by a written instrument executed by the parties to this Agreement or, in the case of a waiver, by the party waiving compliance.

9.5 Code Section 409A. Payment of amounts under this Agreement are intended to comply with the requirements of Code section 409A and this Agreement shall in all respects be administered and construed to give effect to such intent. The Committee in its sole discretion may accelerate or delay distribution of any shares in payment of amounts due under this Agreement if and to the extent allowed under Code section 409A.

The parties hereto have executed this Agreement effective the day and year first above written.

SLEEP NUMBER CORPORATION

*Shelly Ibach*

Shelly Ibach  
President and CEO

By execution of this Agreement,  
the Grantee acknowledges having  
received a copy of the Plan.

GRANTEE

(Signature)

(Name and Address)

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**RESTRICTED STOCK UNIT AWARD AGREEMENT**

THIS AGREEMENT is entered into and effective as of May 15, 2019 (the "Date of Grant"), by and between Sleep Number Corporation (the "Company") and (the "Grantee").

Unless defined in this Agreement, capitalized terms used in this Agreement shall have the meanings established in the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan (the "Plan").

The Company has adopted the Plan, which authorizes the grant of Restricted Stock Unit Awards to Non-Employee Directors serving on the Board of Directors of the Company (the "Board"). The Company desires to give the Grantee, a Non-Employee Director, a proprietary interest in the Company and an added incentive to advance the interests of the Company by granting to the Grantee a Restricted Stock Unit Award pursuant to the Plan.

Accordingly, the parties agree as follows:

1. Grant of Award Units. The Company hereby grants to the Grantee a Restricted Stock Unit Award (the "Award") consisting of units (the "Award Units") that will be settled in shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), subject to the terms, conditions, and restrictions set forth below and in the Plan. Reference in this Agreement to the Award Units will be deemed to include the Dividend Proceeds (as defined in Section 3.3 of this Agreement) with respect to such Award Units that are retained and held by the Company as provided in Section 3.3 of this Agreement.

2. Grant Restriction.

2.1 Restriction and Forfeiture. The Grantee's right to the Award Units and the shares of Common Stock issuable under the Award Units will be fully vested at the end of the earlier of: (i) the first anniversary of the date of this Agreement or (ii) the next annual meeting of shareholders of the Company at which directors are elected to the Board (the "Vesting Period") subject to the Grantee remaining in continuous service on the Board throughout the Vesting Period; provided, however, that such service period restrictions (the "Restrictions") will lapse and terminate prior to end of the Vesting Period as set forth in Section 2.2 below (or as otherwise set forth in the Plan for any circumstance not contemplated by the terms of Section 2.2).

2.2 Death, Disability, or other Termination of Employment or Service.

(a) Death or Disability. In the event of the Grantee's death or Disability during the Vesting Period and prior to the Grantee's termination of service on the Board, the Restrictions applicable to the Award Units will immediately lapse and terminate and the shares of Common Stock to be issued in settlement of the Award Units will be issued as soon as reasonably possible.

(b) Termination Due to Retirement or Resignation.

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(i) In the event that the Grantee's service on the Board is terminated by reason of the Grantee's retirement or resignation from the Board prior to the end of the Vesting Period and the Grantee has five (5) or more years of service on the Board prior to such retirement or resignation, then the Grantee will receive a pro rata portion of Award Units that vest, pursuant to this provision, based on the number of calendar days elapsed in the Vesting Period divided by the total number of calendar days in the Vesting Period (*e.g.*, if retirement or resignation occurs 243 calendar days into a 365-day Vesting Period, then 243/365ths of the Award Units will be vested). The shares of Common Stock to be issued in settlement of the vested Award Units will be issued as soon as reasonably possible. The remaining unvested Award Units will immediately terminate and be forfeited without notice of any kind.

(ii) In the event that the Grantee's service on the Board is terminated by reason of the Grantee's retirement or resignation from the Board prior to the end of the Vesting Period and the Grantee has fewer than five (5) years of service on the Board prior to such retirement or resignation, all rights of the Grantee under this Agreement will immediately terminate and be forfeited without notice of any kind.

(c) Termination for Reasons other than Death, Disability or Retirement. Except as otherwise expressly provided in the Plan, in the event the Grantee's service on the Board is terminated prior to the end of the Vesting Period for any reason other than death, Disability, retirement or resignation from the Board as provided above, all rights of the Grantee under this Agreement relating to Award Units with respect to which the Restrictions have not lapsed will immediately terminate and be forfeited without notice of any kind.

### 3. Issuance of Shares.

3.1 Timing. Vested Award Units shall be converted to shares of Common Stock on a one-for-one basis, and such shares shall be issued as soon as reasonably possible after the end of the Vesting Period, subject to the provisions set forth above applicable to vesting events that occur prior to the end of the Vesting Period.

3.2 Limitations on Transfer. Award Units will not be assignable or transferable by the Grantee, either voluntarily or involuntarily, and may not be subjected to any lien, directly or indirectly, by operation of law or otherwise. Any attempt to transfer, assign, or encumber the Award Units, other than in accordance with this Agreement and the Plan, will be null and void and will void the Award, and all Award Units for which the Restrictions have not lapsed will be forfeited and immediately returned to the Company.

3.3 Dividends and Other Distributions. The Award Units are being granted with an equal number of dividend equivalents. Accordingly, the Grantee is entitled to receive an additional award unit with a value equal to any dividends or distributions (including, without limitation, any cash dividends, stock dividends or dividends in kind, the proceeds of any stock split, or the proceeds resulting from any changes or exchanges described in Section 6 of this Agreement, all of which are referred to herein collectively as the

“Dividend Proceeds”) that are paid or payable with respect to one share of Common Stock for each Award Unit, which will be subject to the same rights, restrictions, and performance conditions under this Agreement as the Award Units to which such dividends or distributions relate. The number of additional award units to be received as dividend equivalents for each Award Unit shall be determined by dividing the cash dividend per share by the Fair Market Value of one share of Common Stock on the dividend or distribution payment date. All such additional award units received as dividend equivalents will be subject to the same restrictions and performance conditions as the Award Units to which such Dividend Proceeds relate.

3.4 Fractional Shares. The Grantee acknowledges that the Company will not issue or deliver fractional shares of Common Stock under this Agreement. All fractional shares will be rounded up to the nearest whole share.

4. Rights of the Grantee. The Grantee will have no rights as a shareholder until the Grantee becomes the holder of record of shares of Common Stock issued in settlement of the Award Units. As soon as reasonably possible after the satisfaction of any conditions to the effective issuance of shares of Common Stock in settlement of the Award Units, the shares will be issued by the Company.

5. Withholding Taxes. The Company is entitled to (a) withhold and deduct from future wages of the Grantee (or from other amounts that may be due and owing to the Grantee from the Company), or to withhold from the shares of Common Stock that would otherwise be determined to be paid to the Company out of Dividend Proceeds, or make other arrangements for the collection of all amounts the Company reasonably determines are required to satisfy any federal, state, or local withholding tax requirements attributable to the receipt of the Award, the receipt of dividends or distributions on Award Units, or the lapse or termination of the Restrictions applicable to Award Units, or (b) require the Grantee promptly to remit the amount of such withholding to the Company. In the event that the Company is unable to withhold such amounts, for whatever reason, the Grantee agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under federal, state, or local law.

6. Adjustments. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, or divestiture (including a spin-off) or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Grantee, will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) subject to this Award.

7. Subject to Plan. The Award and the Award Units granted pursuant to this Agreement have been granted under and, except as otherwise expressly provided in this Agreement, are subject to all of the terms and conditions of the Plan. In addition, the Grantee, by execution hereof, acknowledges having received a copy of the Plan, a copy of the Company’s most recent annual report, and a copy of the Company’s most recent proxy statement. The provisions of this Agreement will be interpreted as to be consistent with the Plan and any ambiguities in this

Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is not authorized by the terms of the Plan, the terms of the Plan will prevail.

8. Miscellaneous.

8.1 Binding Effect. This Agreement will be binding upon the heirs, executors, administrators, and successors of the parties to this Agreement.

8.2 Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota, without regard to conflicts of laws provisions. Any legal proceeding related to this Agreement will be brought in an appropriate Minnesota court, and the parties to this Agreement consent to the exclusive jurisdiction of the court for this purpose.

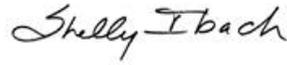
8.3 Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and vesting of this Award and the administration of the Plan and supersede all prior agreements, arrangements, plans, and understandings relating to the grant and vesting of this Award and the administration of the Plan.

8.4 Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified, or canceled only by a written instrument executed by the parties to this Agreement or, in the case of a waiver, by the party waiving compliance.

8.5 Code Section 409A. Payments of amounts under this Agreement are intended to be exempt from the requirements of Code section 409A, and this Agreement shall in all respects be administered and construed to give effect to such intent.

The parties hereto have executed this Agreement effective the day and year first above written.

SLEEP NUMBER CORPORATION



Shelly Ibach  
President and CEO

By execution of this Agreement, the  
Grantee acknowledges having received  
a copy of the Plan, the Company's annual  
report, and the Company's proxy statement.

GRANTEE

(Signature)

(Name and Address)

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## RESTRICTED STOCK UNIT AWARD AGREEMENT

THIS AGREEMENT is entered into and effective as of \_\_\_\_\_, 2019 (the “Date of Grant”), by and between Sleep Number Corporation (the “Company”) and (the “Grantee”).

The Company has adopted the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan (the “Plan”) authorizing the grant of Restricted Stock Unit Awards to employees, non-employee directors and consultants of the Company and its Subsidiaries (as defined in the Plan).

The Company desires to give the Grantee a proprietary interest in the Company and an added incentive to advance the interests of the Company by granting to the Grantee a Restricted Stock Unit Award pursuant to the Plan.

Accordingly, the parties agree as follows:

1. Grant of Award Units.

The Company hereby grants to the Grantee a Restricted Stock Unit Award (the “Award”) consisting of (\_\_\_\_) units (the “Award Units”) that will be settled in shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”), subject to the terms, conditions and restrictions set forth below and in the Plan. Reference in this Agreement to the Award Units will be deemed to include the Dividend Proceeds (as defined in Section 3.3 of this Agreement) with respect to such Award Units that are retained and held by the Company as provided in Section 3.3 of this Agreement.

2. Grant Restriction.

2.1 Restriction and Forfeiture. The Grantee’s right to the Award Units and the shares of Common Stock issuable under the Award Units will vest in three (3) as equal as possible installments (rounding down to the nearest whole share if necessary) on each of the first three (3) anniversaries of the Date of Grant (the “Restriction Period”) subject to the Grantee remaining in continuous employment or service with the Company or any Subsidiary through each of such vesting dates during the Restriction Period; provided, however, that such employment/service period restrictions (the “Restrictions”) will lapse and terminate prior to end of the Restriction Period as set forth in Section 2.2 below (or as otherwise set forth in the Plan for any circumstance not contemplated by the terms of Section 2.2).

2.2 Death, Disability or other Termination of Employment or Service.

(a) Death. In the event of the Grantee’s death during the Restriction Period and prior to the Grantee’s termination of employment or other service, the Restrictions applicable to the Award Units will immediately lapse and

terminate and the shares of Common Stock to be issued in settlement of the Award Units will be issued as soon as reasonably possible.

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(b) Disability. In the event of the Grantee's Disability (as defined by the Plan) during the Restriction Period and prior to the Grantee's termination of employment or other service, the Restrictions applicable to the Award Units will immediately lapse and terminate and the shares of Common Stock to be issued in settlement of the Award Units will be issued as soon as reasonably possible.

(c) Termination Due to Retirement.

(i) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee's retirement at or beyond age fifty-five (55) and the Grantee has five (5) or more years of service with the Company prior to retirement, the Grantee will become vested in a pro rata portion of Award Units (the "Pro Rata Award Units") based on the number of calendar days elapsed since the most recent anniversary of the Date of Grant (the "Vesting Anniversary") as of the date of retirement, divided by the number of calendar days in the Restriction Period. The remaining unvested Award Units will immediately terminate and be forfeited without notice of any kind.

For example, if the Grantee was granted 1,200 Award Units and retirement occurs 548 calendar days into the Restriction Period, assuming the Restriction Period contains 1,095 calendar days, the Grantee would have (i)  $1,200/3 = 400$  Award Units vested pursuant to Section 2.1, plus (ii)  $1,200 \times (183/1095) = 201$  Pro Rata Award Units. The shares of Common Stock to be issued in settlement of the vested Award Units will be issued as soon as reasonably possible.

(ii) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee's retirement prior to age fifty-five (55) or the Grantee has fewer than five (5) years of service with the Company prior to retirement, all rights of the Grantee under the Plan and this Agreement relating to all Award Units with respect to which the Restrictions have not lapsed will terminate immediately without notice of any kind and will be forfeited.

(d) Termination for Reasons other than Death, Disability or Retirement. In the event the Grantee's employment or other service with the Company and all Subsidiaries is terminated for any reason other than death, Disability or retirement as provided above, or the Grantee is in the employ or service of a Subsidiary and the Subsidiary ceases to be a Subsidiary of the Company (unless the Grantee continues in the employ or service of the Company or another Subsidiary), all rights of the Grantee under this Agreement relating to Award Units with respect to which the Restrictions have not lapsed will terminate immediately without notice of any kind, and will be forfeited.

3. Issuance of Shares.

3.1 Timing. Vested Award Units shall be converted to shares of Common Stock on a one-for-one basis and such shares shall be issued as soon as reasonably possible after the end of

the Restriction Period, subject to the provisions set forth above applicable to vesting events that occur prior to the end of the Restriction Period.

3.2 Limitations on Transfer. Award Units will not be assignable or transferable by the Grantee, either voluntarily or involuntarily, and may not be subjected to any lien, directly or indirectly, by operation of law or otherwise. Any attempt to transfer, assign or encumber the Award Units other than in accordance with this Agreement and the Plan will be null and void and will void the Award, and all Award Units for which the Restrictions have not lapsed will be forfeited and immediately returned to the Company.

3.3 Dividends and Other Distributions. The Award Units are being granted with an equal number of dividend equivalents. Accordingly, the Grantee is entitled to receive an additional Award Unit with a value equal to any dividends or distributions (including, without limitation, any cash dividends, stock dividends or dividends in kind, the proceeds of any stock split or the proceeds resulting from any changes or exchanges described in Section 6 of this Agreement, all of which are referred to herein collectively as the "Dividend Proceeds") that are paid or payable with respect to one share of Common Stock for each Award Unit which will be subject to the same rights, restrictions and performance conditions under this Agreement as the Award Units to which such dividends or distributions relate. The number of additional Award Units to be received as dividend equivalents for each Award Unit shall be determined by dividing the cash dividend per share by the Fair Market Value of one share of Common Stock on the dividend or distribution payment date. All such additional Award Units received as dividend equivalents will be subject to the same restrictions and performance conditions as the Award Units to which such Dividend Proceeds relate.

4. Rights of Grantee.

4.1 Employment or Service. Nothing in this Agreement will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of the Grantee at any time, nor confer upon the Grantee any right to continue in the employment or service with the Company or any Subsidiary at any particular position or rate of pay or for any particular period of time.

4.2 Rights as a Shareholder. The Grantee will have no rights as a shareholder until the Grantee becomes the holder of record of shares of Common Stock issued in settlement of the Award Units. As soon as reasonably possible after the satisfaction of any conditions to the effective issuance of shares of Common Stock in settlement of the Award Units, the shares will be issued by the Company.

5. Withholding Taxes.

The Company is entitled to (a) withhold and deduct from future wages of the Grantee (or from other amounts that may be due and owing to the Grantee from the Company), or to withhold from the shares of Common Stock that would otherwise be determined to be paid to the Company out of Dividend Proceeds, or make other arrangements for the collection of all amounts the Company reasonably determines are required to satisfy any federal, state or local withholding and employment-related tax requirements attributable to the receipt of the Award, the receipt of dividends or distributions on Award Units, or the lapse or termination of the Restrictions applicable to Award Units, or (b) require the Grantee promptly to remit the amount

of such withholding to the Company. In the event that the Company is unable to withhold such amounts, for whatever reason, the Grantee agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under federal, state or local law.

6. Adjustments.

In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering or divestiture (including a spin-off) or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Grantee, will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) subject to this Award.

7. Subject to Plan.

The Award and the Award Units granted pursuant to this Agreement have been granted under, and are subject to the terms of, the Plan. The terms of the Plan are incorporated by reference in this Agreement in their entirety. In addition, the Grantee, by execution hereof, acknowledges having received a copy of the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is not authorized by or is inconsistent with the terms of the Plan, the terms of the Plan will prevail.

8. Miscellaneous.

8.1 Binding Effect. This Agreement will be binding upon the heirs, executors, administrators and successors of the parties to this Agreement.

8.2 Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota, without regard to conflicts of laws provisions. Any legal proceeding related to this Agreement will be brought in an appropriate Minnesota court and the parties to this Agreement consent to the exclusive jurisdiction of the court for this purpose.

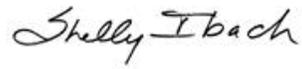
8.3 Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and vesting of this Award and the administration of the Plan and supersede all prior agreements, arrangements, plans and understandings relating to the grant and vesting of this Award and the administration of the Plan.

8.4 Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified or canceled only by a written instrument executed by the parties to this Agreement or, in the case of a waiver, by the party waiving compliance.

8.5 Code Section 409A. Payment of amounts under this Agreement are intended to exempt from the requirements of Code section 409A and this Agreement shall in all respects be administered and construed to give effect to such intent.

The parties hereto have executed this Agreement effective the day and year first above written.

SLEEP NUMBER CORPORATION



Shelly Ibach  
President and CEO

By execution of this Agreement,  
the Grantee acknowledges having  
received a copy of the Plan.

GRANTEE

(Signature)

(Name and Address)

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## RESTRICTED STOCK UNIT AWARD AGREEMENT

THIS AGREEMENT is entered into and effective as of \_\_\_\_\_, 2019 (the “Date of Grant”), by and between Sleep Number Corporation (the “Company”) and (the “Grantee”).

The Company has adopted the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan (the “Plan”) authorizing the grant of Restricted Stock Unit Awards to employees, non-employee directors and consultants of the Company and its Subsidiaries (as defined in the Plan).

The Company desires to give the Grantee a proprietary interest in the Company and an added incentive to advance the interests of the Company by granting to the Grantee a Restricted Stock Unit Award pursuant to the Plan.

Accordingly, the parties agree as follows:

1. Grant of Award Units.

The Company hereby grants to the Grantee a Restricted Stock Unit Award (the “Award”) consisting of \_\_\_\_\_ units (the “Award Units”) that will be settled in shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”), subject to the terms, conditions and restrictions set forth below and in the Plan. Reference in this Agreement to the Award Units will be deemed to include the Dividend Proceeds (as defined in Section 3.3 of this Agreement) with respect to such Award Units that are retained and held by the Company as provided in Section 3.3 of this Agreement.

2. Grant Restriction.

2.1 Restriction and Forfeiture. The Grantee’s right to the Award Units and the shares of Common Stock issuable under the Award Units will be fully vested at the end of three (3) years from the Date of Grant (the “Restriction Period”) subject to the Grantee remaining in continuous employment or service with the Company or any Subsidiary throughout the Restriction Period; provided, however, that such employment/service period restrictions (the “Restrictions”) will lapse and terminate prior to end of the Restriction Period as set forth in Section 2.2 below (or as otherwise set forth in the Plan for any circumstance not contemplated by the terms of Section 2.2).

2.2 Death, Disability or other Termination of Employment or Service.

(a) Death. In the event of the Grantee’s death during the Restriction Period and prior to the Grantee’s termination of employment or other service, the Restrictions applicable to the Award Units will immediately lapse and terminate and the shares of Common Stock to be issued in settlement of the Award Units will be issued as soon as reasonably possible.

(b) Disability. In the event of the Grantee's Disability (as defined by the Plan) during the Restriction Period and prior to the Grantee's termination of employment

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or other service, the Restrictions applicable to the Award Units will immediately lapse and terminate and the shares of Common Stock to be issued in settlement of the Award Units will be issued as soon as reasonably possible.

(c) Termination Due to Retirement.

(i) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee's retirement at or beyond age fifty-five (55) and the Grantee has five (5) or more years of service with the Company prior to retirement, the Grantee will become vested in the Award Units pro rata based on the number of months elapsed in the Restriction Period as of the date of retirement (e.g., if retirement occurs 24 months into the 36 month vesting period, then the Grantee will become vested with respect to an aggregate of two-thirds (2/3rds) of the Award Units and the remaining one-third (1/3rd) of the Award Units will terminate immediately without notice of any kind and will be forfeited). The shares of Common Stock to be issued in settlement of the vested Award Units will be issued as soon as reasonably possible after the Grantee's retirement.

(ii) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Grantee's retirement prior to age fifty-five (55) or the Grantee has fewer than five (5) years of service with the Company prior to retirement, all rights of the Grantee under the Plan and this Agreement relating to all Award Units with respect to which the Restrictions have not lapsed will terminate immediately without notice of any kind and will be forfeited.

(d) Termination for Reasons other than Death, Disability or Retirement. In the event the Grantee's employment or other service with the Company and all Subsidiaries is terminated for any reason other than death, Disability or retirement as provided above, or the Grantee is in the employ or service of a Subsidiary and the Subsidiary ceases to be a Subsidiary of the Company (unless the Grantee continues in the employ or service of the Company or another Subsidiary), all rights of the Grantee under this Agreement relating to Award Units with respect to which the Restrictions have not lapsed will terminate immediately without notice of any kind, and will be forfeited.

3. Issuance of Shares.

3.1 Timing. Vested Award Units shall be converted to shares of Common Stock on a one-for-one basis and such shares shall be issued as soon as reasonably possible after the end of the Restriction Period, subject to the provisions set forth above applicable to vesting events that occur prior to the end of the Restriction Period.

3.2 Limitations on Transfer. Award Units will not be assignable or transferable by the Grantee, either voluntarily or involuntarily, and may not be subjected to any lien, directly or indirectly, by operation of law or otherwise. Any attempt to transfer, assign or encumber the Award Units other than in accordance with this Agreement and the Plan will be null and void and will void the Award, and all Award Units for which the Restrictions have not lapsed will be forfeited and immediately returned to the Company.

3.3 Dividends and Other Distributions. The Award Units are being granted with an equal number of dividend equivalents. Accordingly, the Grantee is entitled to receive an additional Award Unit with a value equal to any dividends or distributions (including, without limitation, any cash dividends, stock dividends or dividends in kind, the proceeds of any stock split or the proceeds resulting from any changes or exchanges described in Section 6 of this Agreement, all of which are referred to herein collectively as the “Dividend Proceeds”) that are paid or payable with respect to one share of Common Stock for each Award Unit which will be subject to the same rights, restrictions and performance conditions under this Agreement as the Award Units to which such dividends or distributions relate. The number of additional Award Units to be received as divided equivalents for each Award Unit shall be determined by dividing the cash dividend per share by the Fair Market Value of one share of Common Stock on the dividend or distribution payment date. All such additional Award Units received as dividend equivalents will be subject to the same restrictions and performance conditions as the Award Units to which such Dividend Proceeds relate.

4. Rights of Grantee.

4.1 Employment or Service. Nothing in this Agreement will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of the Grantee at any time, nor confer upon the Grantee any right to continue in the employment or service with the Company or any Subsidiary at any particular position or rate of pay or for any particular period of time.

4.2 Rights as a Shareholder. The Grantee will have no rights as a shareholder until the Grantee becomes the holder of record of shares of Common Stock issued in settlement of the Award Units. As soon as reasonably possible after the satisfaction of any conditions to the effective issuance of shares of Common Stock in settlement of the Award Units, the shares will be issued by the Company.

5. Withholding Taxes.

The Company is entitled to (a) withhold and deduct from future wages of the Grantee (or from other amounts that may be due and owing to the Grantee from the Company), or to withhold from the shares of Common Stock that would otherwise be determined to be paid to the Company out of Dividend Proceeds, or make other arrangements for the collection of all amounts the Company reasonably determines are required to satisfy any federal, state or local withholding and employment-related tax requirements attributable to the receipt of the Award, the receipt of dividends or distributions on Award Units, or the lapse or termination of the Restrictions applicable to Award Units, or (b) require the Grantee promptly to remit the amount of such withholding to the Company. In the event that the Company is unable to withhold such amounts, for whatever reason, the Grantee agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under federal, state or local law.

6. Adjustments.

In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering or divestiture (including a spin-off) or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the

board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Grantee, will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) subject to this Award.

7. Subject to Plan.

The Award and the Award Units granted pursuant to this Agreement have been granted under, and are subject to the terms of, the Plan. The terms of the Plan are incorporated by reference in this Agreement in their entirety. In addition, the Grantee, by execution hereof, acknowledges having received a copy of the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is not authorized by or is inconsistent with the terms of the Plan, the terms of the Plan will prevail.

8. Miscellaneous.

8.1 Binding Effect. This Agreement will be binding upon the heirs, executors, administrators and successors of the parties to this Agreement.

8.2 Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota, without regard to conflicts of laws provisions. Any legal proceeding related to this Agreement will be brought in an appropriate Minnesota court and the parties to this Agreement consent to the exclusive jurisdiction of the court for this purpose.

8.3 Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and vesting of this Award and the administration of the Plan and supersede all prior agreements, arrangements, plans and understandings relating to the grant and vesting of this Award and the administration of the Plan.

8.4 Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified or canceled only by a written instrument executed by the parties to this Agreement or, in the case of a waiver, by the party waiving compliance.

8.5 Code Section 409A. Payment of amounts under this Agreement are intended to exempt from the requirements of Code section 409A, except for a Grantee who becomes eligible for partial vesting following eligibility for retirement under Section 2(c), in which case payment of amounts under the Agreement are intended, and this Agreement shall in all respects be administered and construed to give effect to such intent. A payment on account of a termination of employment by reason of the Grantee's retirement under Section 2(c) shall only be made if such termination is a "separation from service" under Code section 409A, and if payment is made as a result of such "separation from service" at such time the Grantee is a "specified employee" within the meaning of Code section 409A, then no shares shall be issued prior to the first business day after the earlier of (i) the date that is six months after the Grantee's separation from service, or (ii) the date of the Grantee's death.

IN WITNESS WHEREOF, the Company and the Employee have executed this Agreement as of the date first above written.

SLEEP NUMBER CORPORATION



Shelly Ibach  
President and CEO

By execution of this Agreement,  
the Employee acknowledges having  
received a copy of the Plan.

EMPLOYEE

(Signature)

(Name and Address)

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**NON-STATUTORY STOCK OPTION AGREEMENT**

THIS AGREEMENT is entered into and effective as of \_\_\_\_\_, 2019 (the “Date of Grant”), by and between Sleep Number Corporation (the “Company”) and (the “Grantee”).

Unless defined in this Agreement, capitalized terms used in this Agreement shall have the meanings established in the Sleep Number Corporation Amended and Restated 2010 Omnibus Incentive Plan (the “Plan”).

The Company has adopted the Plan, which authorizes the grant of Non-Statutory Stock Options to Non-Employee Directors serving on the Board of Directors of the Company (the “Board”). The Company desires to give the Grantee, a Non-Employee Director, a proprietary interest in the Company and an added incentive to advance the interests of the Company by granting to the Grantee Non-Statutory Stock Options pursuant to the Plan.

Accordingly, the parties agree as follows:

1. Terms of Grant of Options.

1.1 Type of Option. The Company hereby grants to the Grantee Non-Statutory Stock Options in the quantity and at the price listed below, subject to the vesting provisions and other terms and conditions of this Agreement (the “Options”).

1.2 Total Shares of Common Stock. The grant of Options gives the Grantee the right to purchase up to \_\_\_\_\_ shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”).

1.3 Exercise Price of Option. The exercise price of the Options is \$\_\_\_\_\_ per share.

1.4 Vesting Schedule. All Options granted under this Agreement will become exercisable, or “vest,” on the earlier of (i) the first anniversary of the Date of Grant or (ii) the next annual meeting of shareholders of the Company at which directors are elected (the “Vesting Period”) subject to the Grantee remaining in continuous service on the Board during the Vesting Period; provided, however, that such restrictions (the “Restrictions”) will lapse and terminate prior to end of the Vesting Period as set forth in Section 2 below (or as otherwise set forth in the Plan for any circumstance not contemplated by the terms of Section 2).

1.5 Expiration of Options. The Grantee’s right to exercise the Options will terminate as to all unexercised Options at 5:00 p.m., Central Time, on \_\_\_\_\_, 2029 (the “Expiration Date”), subject to earlier termination as described below or in the Plan.

1.6 Fractional Shares. The Grantee acknowledges that the Company will not issue or deliver fractional shares of Common Stock under this Agreement. All fractional shares will be rounded up to the nearest whole share.

2. Death, Disability, or other Termination of Service. The vesting and termination provisions of the Options granted hereby will be impacted by the termination of the Grantee's service on the Board, depending on the reason for termination of the Grantee's service on the Board, as set forth below.

2.1 Death or Disability. In the event that the Grantee's service on the Board is terminated due to the Grantee's death or Disability prior to the end of the Vesting Period, the Restrictions applicable to the Options will immediately lapse and terminate, and the Options will become immediately exercisable in full and will remain exercisable for up to three (3) years, but not beyond the Expiration Date.

2.2 Termination Due to Retirement or Resignation. In the event that the Grantee's service on the Board is terminated by reason of the Grantee's retirement or resignation from the Board prior to the end of the Vesting Period and the Grantee has five (5) or more years of service on the Board prior to such retirement or resignation, then the Grantee will receive a pro rata portion of Options that vest, pursuant to this provision, based on the number of calendar days elapsed in the Vesting Period divided by the total number of calendar days in the Vesting Period ( e.g., if retirement or resignation occurs 243 calendar days into a 365-day Vesting Period, then 243/365ths of the Options will be vested). The remaining unvested Options will immediately terminate and be forfeited without notice of any kind. Upon any voluntary retirement or resignation from the Board, regardless of the number of years of service, Options that are vested will remain exercisable for up to three (3) years after retirement, but not beyond the Expiration Date.

2.3 Termination by the Company other than for Cause or Adverse Action. If the Grantee's service on the Board is terminated by the Company other than for Cause or Adverse Action, Options that have already vested pursuant to Section 1.4 as of the date of the Grantee's termination of service on the Board will remain exercisable for up to three (3) months, but not beyond the Expiration Date, after the Grantee's service on the Board ends. The Options that have not vested as of the date of the Grantee's termination of service on the Board will immediately terminate and be forfeited without notice of any kind.

2.4 Termination by the Company for Cause or Adverse Action. If the Grantee's service on the Board is terminated by the Company for Cause or Adverse Action, all of the Grantee's rights under the Plan, this Agreement, and the Options granted hereby will immediately terminate and be forfeited without notice of any kind.

3. Notice. The Company is not required to give the Grantee notice of the termination of the Grantee's Options.

4. Exercise.

4.1 Manner of Exercise. An Option may be exercised by the Grantee in whole or in part from time to time, subject to the conditions contained in this Agreement and the Plan. The Options may be exercised by delivery in person, by facsimile or electronic transmission, or through the mail of written notice of exercise to the Company at its principal executive office in Minneapolis, Minnesota (or to the Company's designee, as

may be established from time to time by the Company and communicated to the Grantee), and by paying in full the total exercise price for the shares of Common Stock underlying the Options.

4.2 Payment of Exercise Price. The total purchase price of the shares of Common Stock to be purchased upon exercise of an Option will be paid in cash, including check, bank draft, or money order, unless otherwise determined by the Committee or as otherwise provided for in the Plan.

5. Rights of the Grantee.

5.1 Limitations on Transfer. Except pursuant to testamentary will or the laws of descent and distribution, or as otherwise permitted by the Plan, prior to the exercise or vesting of Options, Options issued under the Plan will not be assignable or transferable by the Grantee or subjected to any lien, during the lifetime of the Grantee, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise. The Grantee may, however, designate a beneficiary, as provided for in the Plan.

5.2 Rights as a Shareholder. The Grantee will have no rights as a shareholder until the Grantee becomes the holder of record of shares of Common Stock issued upon the Grantee's exercise of the Options. As soon as reasonably possible after the satisfaction of any conditions to the effective issuance of shares of Common Stock in settlement of the Options, the shares will be issued by the Company.

5.3 Shares Purchased. Following the Grantee's exercise of the Grantee's rights to purchase shares of Common Stock under this Agreement, the shares of Common Stock purchased by the Grantee will be freely tradable, subject to the Company's policies and the Securities and Exchange Commission ("SEC") rules regarding insider trading. Members of the Board are required to comply with SEC Rule 144 and with the Company's policies with respect to insider trading in connection with any sale of shares received upon the exercise of any stock options.

5.4 Service. Nothing in this Agreement will interfere with or limit in any way the right of the Company to terminate the service of the Grantee at any time, nor confer upon the Grantee any right to continue in his or her service on the Board in any particular position or rate of pay or for any particular period of time.

6. Taxes.

6.1 Withholding Taxes. The Company is entitled to (i) withhold and deduct from future wages of the Grantee (or from other amounts that may be due and owing to the Grantee from the Company), or make other arrangements for the collection of all amounts the Company determines are legally required to satisfy any federal, state, or local withholding tax requirements attributable to the exercise of the Options, or (ii) require the Grantee promptly to remit the amount of such withholding to the Company. In the event that the Company is unable to withhold such amounts, for whatever reason, the Grantee agrees to

pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under federal, state, or local law.

6.2 Income Tax Implications. There may be income tax consequences resulting from the exercise of the Options and/or sale of the shares of Common Stock received upon the exercise of the Options. The Grantee is urged to consult with his or her individual tax advisor regarding any tax consequences relating to these transactions. The Company accepts no responsibility for the income tax implications of the transactions resulting from this Agreement, except as set forth in Section 6.1.

7. Adjustments. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, or divestiture (including a spin-off), or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Grantee, will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) subject to this Agreement.

8. Subject to Plan. The Options granted pursuant to this Agreement have been granted under the Plan and, except as otherwise expressly provided in this Agreement, are subject to all of the terms and conditions of the Plan. In addition, the Grantee, by execution hereof, acknowledges having received a copy of the Plan, a copy of the Company's most recent annual report, and a copy of the Company's most recent proxy statement. The provisions of this Agreement will be interpreted as to be consistent with the Plan and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is not authorized under the Plan, the terms of the Plan will prevail.

9. Nature of Grant. By accepting the Options, the Grantee acknowledges, understands, and agrees that:

9.1 The grant of Options under this Agreement is made voluntarily by the Company under the Plan, which is established by and subject to the discretion of the Committee, and the Grantee's participation in the Plan is voluntary.

9.2 The Options granted by this Agreement are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension, or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company.

9.3 The future value of the Options or Common Stock underlying the Options is uncertain and cannot be predicted. If the underlying shares of Common Stock do not increase in value, the Option will have no value.

9.4 Other than provided in the Plan or in this Agreement, the Options granted to the Grantee do not create any claim or entitlement to compensation or damages arising from forfeiture of the Options.

10. Miscellaneous.

10.1 Binding Effect. This Agreement will be binding upon the heirs, executors, administrators, and successors of the parties to this Agreement.

10.2 Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota, without regard to conflicts of laws provisions. Any legal proceeding related to this Agreement will be brought in an appropriate Minnesota court, and the parties to this Agreement consent to the exclusive jurisdiction of the court for this purpose.

10.3 Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and vesting of the Options and the administration of the Plan and supersede all prior agreements, arrangements, plans, and understandings relating to the grant and vesting of the Options and the administration of the Plan.

10.4 Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified, or canceled only by a written instrument executed by the parties to this Agreement or, in the case of a waiver, by the party waiving compliance.

10.5 Code Section 409A. Payments of amounts under this Agreement are intended to be exempt from the requirements of Code section 409A, and this Agreement shall in all respects be administered and construed to give effect to such intent.

The parties hereto have executed this Agreement effective the day and year first above written.

SLEEP NUMBER CORPORATION



Shelly Ibach  
President and CEO

By execution of this Agreement, the Grantee acknowledges having received a copy of the Plan, the Company's annual report, and the Company's proxy statement.

GRANTEE

(Signature)

(Name and Address)

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## Certification by Chief Executive Officer

I, Shelly R. Ibach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sleep Number Corporation;
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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2019

/s/ Shelly R. Ibach  
Shelly R. Ibach  
Chief Executive Officer

**Certification by Chief Financial Officer**

I, David R. Callen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sleep Number Corporation;
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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2019

/s/ David R. Callen

David R. Callen

Senior Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sleep Number Corporation (the "Company") on Form 10-Q for the quarter ended September 28, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Shelly R. Ibach, Chief Executive Officer of the Company, solely for the purposes of 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, does hereby certify, to her knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2019

/s/ Shelly R. Ibach  
Shelly R. Ibach  
Chief Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 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.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

CERTIFICATION PURSUANT TO  
18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sleep Number Corporation (the "Company") on Form 10-Q for the quarter ended September 28, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, David R. Callen, Senior Vice President and Chief Financial Officer of the Company, solely for the purposes of 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, does hereby certify, to his knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2019

/s/ David R. Callen

David R. Callen  
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 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.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

