AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 29, 1998.

REGISTRATION NO. 333-62793

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 1
TO

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SELECT COMFORT CORPORATION
(Exact name of registrant as specified in its charter)

MINNESOTA	2515	41-1597886
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

6105 TRENTON LANE NORTH, SUITE 100
MINNEAPOLIS, MINNESOTA 55442
(612) 551-7000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

DANIEL J. MCATHIE
EXECUTIVE VICE PRESIDENT, CHIEF FINANCIAL OFFICER, CHIEF OPERATING OFFICER AND SECRETARY

SELECT COMFORT CORPORATION
6105 TRENTON LANE NORTH, SUITE 100
MINNEAPOLIS, MINNESOTA 55442
(612) 551-7000
(Name and address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

Mark A. Kimball Thomas R. Marek Amy E. Culbert Oppenheimer Wolff & Donnelly LLP 3400 Plaza VII, 45 South Seventh Street Minneapolis, Minnesota 55402 (612) 607-7000	Peter Lillevand Scott Elliott Greg Liberman Orrick, Herrington & Sutcliffe LLP Old Federal Reserve Bank Building 400 Sansome Street San Francisco, California 94111 (415) 392-1122

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box: / /

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

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

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

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

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INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED OCTOBER 29, 1998

PROSPECTUS

4,000,000 SHARES

SELECT COMFORT CORPORATION

[LOGO]

COMMON STOCK

Of the 4,000,000 shares of Common Stock offered hereby, 2,800,000 shares are being sold by the Company and 1,200,000 shares are being sold by the Selling Shareholders. The Company will not receive any of the proceeds from the sale of shares by the Selling Shareholders. See "Principal and Selling Shareholders."

Prior to this offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price will be between $15.00 and $17.00 per share. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. The Company has applied to have the Common Stock approved for quotation on the Nasdaq National Market under the symbol AIRB.

THE SHARES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK.
SEE "RISK FACTORS" COMMENCING ON PAGE 6.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)	PROCEEDS TO SELLING SHAREHOLDERS
Per Share.....	$	$	$	$
Total(3).....	$	$	$	$

(1) See "Underwriting" for indemnification arrangements with the several Underwriters.

(2) Before deducting offering expenses payable by the Company estimated at $1,000,000.

(3) The Selling Shareholders have granted to the Underwriters a 30-day option to purchase up to 600,000 additional shares of Common Stock solely to cover over-allotments, if any. If all such shares are purchased, the total Price to Public, Underwriting Discount and Proceeds to Selling Shareholders will be $, $ and $, respectively. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters subject to prior sale, receipt and acceptance by them and subject to the right of the Underwriters to reject any order in whole or in part and certain other conditions. It is expected that certificates for such shares will be available for delivery on or about , 1998, at the office of the agent of Hambrecht & Quist LLC in New York, New York.

HAMBRECHT & QUIST

BANCBOSTON ROBERTSON STEPHENS

PIPER JAFFRAY INC.

, 1998

[INSIDE FRONT COVER PAGE OF PROSPECTUS INCLUDES A PICTURE OF A DIRECT MARKETING SALES PROFESSIONAL, PICTURES OF MANUFACTURING PERSONNEL, A PICTURE OF A SELECT COMFORT AIR BED, A PICTURE OF A DISPLAY OF SELECT COMFORT PILLOWS, A PICTURE OF A TYPICAL SELECT COMFORT RETAIL STORE AND A MAP OF THE UNITED STATES ILLUSTRATING SELECT COMFORT'S RETAIL STORE LOCATIONS]

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK, INCLUDING BY ENTERING STABILIZING BIDS, EFFECTING SYNDICATE COVERING TRANSACTIONS OR IMPOSING PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

SELECT COMFORT-REGISTERED TRADEMARK-, SLEEP NUMBER-REGISTERED TRADEMARK-, COMFORT CLUB-REGISTERED TRADEMARK-, 90 NIGHT TRIAL, BETTER NIGHT'S SLEEP GUARANTEE, THE AIR BED COMPANY and the Company's stylized logo are trademarks of the Company. This Prospectus also includes trademarks of companies other than the Company.

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES THERETO APPEARING ELSEWHERE IN

THIS PROSPECTUS. THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS."

THE COMPANY

Select Comfort, "The Air Bed Company," is the leading vertically integrated manufacturer, specialty retailer and direct marketer of premium quality, premium priced, innovative air beds and sleep-related products. Select Comfort believes it is revolutionizing the mattress industry by offering a differentiated product through a variety of service-oriented distribution channels. Select Comfort's products have been clinically proven to address broad-based consumer sleep problems through the Company's proprietary air bed technology and the ability to customize the firmness on each side of the mattress at the touch of a button. The Company offers its air beds exclusively under the Select Comfort brand through 244 Select Comfort retail stores and leased departments, direct marketing operations and road show events. Net sales have grown from $14.0 million in 1993 to $184.4 million in 1997, and comparable stores sales have increased 26.1%, 36.8% and 26.9% for 1996, 1997 and the nine months ended October 3, 1998, respectively.

According to the International Sleep Products Association, 35.3 million mattress and foundation units were sold in the U.S. in 1997, generating approximately $3.6 billion in wholesale sales, which the Company believes represented approximately $6.7 billion in retail sales. This market is dominated by four large manufacturers primarily focused on traditional innerspring mattresses. The National Sleep Foundation estimates that approximately 50% of U.S. consumers have suffered from sleep deprivation or poor quality sleep from a variety of causes. The Company believes there is increasing demand for products designed to provide a better night's sleep and promote overall wellness and the traditional innerspring mattress industry has not been responsive to these consumer preferences.

Select Comfort has commissioned a number of independent clinical studies which indicate that the Company's air beds provide consumers with substantial benefits over traditional innerspring mattresses. These studies have confirmed that Select Comfort's air beds provide greater comfort and support by more naturally contouring to the body, thereby providing better spinal alignment, reduced pressure points, greater relief of lower back pain, greater overall comfort and better quality sleep compared to traditional mattress products. The Company has been granted or has applications pending for 22 U.S. patents and maintains an active research and development department.

Unlike traditional mattress manufacturers, Select Comfort sells its products directly to consumers through three complementary, service-oriented distribution channels. Each of these channels is operated by knowledgeable Company employees trained in the latest innovations in sleep technology and the benefits and features of the Select Comfort product line. The Company's retail operations included 244 stores in 43 states, including four leased departments (three in Bed Bath & Beyond stores), at October 3, 1998. The Company plans to open approximately 12 additional retail stores and 10 additional leased departments in Bed Bath & Beyond stores in the remainder of 1998 and approximately 50 retail stores in 1999. In addition, the Company expects to expand its leased department concept in 1999. The Company's direct marketing operations include approximately 90 sales professionals who service consumer inquiries and make outbound calls. Road show events are held in selected markets where the Company has high inquiry levels but does not have a retail presence, as well as at home shows and consumer product shows, state fairs and similar events. The Company advertises through targeted print, radio and television media which generate consumer inquiries that are pursued through each of the Company's three distribution channels.

The Company's goal is to leverage its leadership position and build the Select Comfort brand to be synonymous with a better night's sleep. In order to achieve this goal, the Company's business and growth strategy is to (i) provide a superior product, (ii) educate consumers and provide superior customer service, (iii) increase product awareness and brand recognition, (iv) leverage complementary distribution channels, (v) capitalize on vertically integrated operations, and (vi) pursue additional growth opportunities by offering new and

enhanced products and services and pursuing additional marketing channels.

The Company was incorporated in Minnesota in February 1987. The Company's principal executive office is located at 6105 Trenton Lane North, Suite 100, Minneapolis, MN 55442. The Company's telephone number is (612) 551-7000.

THE OFFERING

Common Stock offered by the Company.....	2,800,000 shares
Common Stock offered by the Selling Shareholders.....	1,200,000 shares
Common Stock to be outstanding after the offering.....	18,045,094 shares(1)
Use of proceeds.....	To repay a portion of long-term indebtedness; to fund expansion of its retail store base and the build-out, start-up and leasing of a third manufacturing and distribution facility; and for general corporate purposes, including working capital and possible acquisitions
Proposed Nasdaq National Market symbol.....	AIRB

SUMMARY CONSOLIDATED FINANCIAL INFORMATION
(IN THOUSANDS, EXCEPT PER SHARE AND SELECTED OPERATING DATA)

	YEAR ENDED(2)					NINE MONTHS ENDED	
	DEC. 31, 1993	DEC. 31, 1994	DEC. 30, 1995	DEC. 28, 1996	JAN. 3, 1998	SEPT. 27, 1997	OCT. 3, 1998
	(UNAUDITED)					(UNAUDITED)	
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:							
Net sales	$ 14,041	$ 30,472	$ 68,629	$ 102,028	$ 184,430	$ 126,470	$ 178,835
Gross margin	8,221	19,420	39,796	63,507	117,801	81,584	116,545
Operating income (loss)	(2,753)	(3,297)	(4,589)	(3,764)	2,078	515	7,382
Net loss	$ (2,752)	$ (3,371)	$ (4,560)	$ (3,685)	$ (2,846)	$ (2,524)	$ (413)
Net loss available to common shareholders	$ (2,752)	$ (3,371)	$ (4,560)	$ (4,585)	$ (3,746)	$ (3,199)	$ (1,088)
Net loss per share(3):							
Basic	$ (2.16)	$ (2.65)	$ (3.16)	$ (2.61)	$ (1.59)	$ (1.39)	$ (0.40)
Diluted	$ (1.90)	$ (2.32)	$ (2.81)	$ (2.37)	$ (1.48)	$ (1.29)	$ (0.37)
Weighted average common shares:							
Basic	1,272	1,274	1,444	1,753	2,353	2,309	2,746
Diluted	1,450	1,453	1,623	1,932	2,532	2,488	2,924
Pro forma net income(4)					$ 1,583	$ 162	$ 5,988
Pro forma net income per share, diluted(4)					$ 0.09	$ 0.01	$ 0.31
Pro forma weighted average common shares, diluted(5)					18,288	18,813	19,632
SELECTED OPERATING DATA:							
Stores open at period-end(6)	19	35	68	143	200	190	244
Average square footage of stores open during period(7)	668	642	703	768	866	866	895
Sales per square foot(7)	$ 401	$ 442	$ 611	$ 622	$ 666	$ 460	$ 543
Average store age (in months at period end)	5	12	15	15	22	20	26
Comparable store sales increase(8)	--	57.6%	59.8%	26.1%	36.8%	26.7%	26.9%

	OCTOBER 3, 1998	
	ACTUAL	AS ADJUSTED(9)
	(UNAUDITED)	
CONSOLIDATED BALANCE SHEET DATA:		
Cash and cash equivalents	$ 9,579	$ 35,676
Working capital	3,606	29,939
Total assets	63,323	88,414
Long-term debt, less current maturities	24,244	167
Mandatorily redeemable preferred stock	27,612	--
Total common shareholders' equity (deficit)	(20,356)	57,093

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(1) Based on the number of shares outstanding as of October 3, 1998. Excludes (i) an aggregate of 3,247,478 shares of Common Stock issuable upon exercise of stock options and warrants outstanding as of October 3, 1998 at a weighted average exercise price of $7.31 per share, and (ii) an aggregate of up to 125,000 shares of Common Stock issuable upon exercise of employee stock options expected to be granted in connection with this offering at an exercise price per share equal to the initial public offering price. See "Capitalization," "Management--Stock Option and Incentive Plans" and "Description of Capital Stock--Options and Warrants."

(2) Except for the year ended January 3, 1998, which included 53 weeks, all years presented included 52 weeks.

(3) See Note 11 of Notes to Consolidated Financial Statements.

(4) Includes pro forma adjustments for (i) the elimination of non-cash interest expense associated with a put warrant, the put feature of which will terminate upon consummation of this offering, (ii) the elimination of interest expense associated with repayment of $15.0 million of the Company's outstanding indebtedness from the proceeds of this offering, and (iii) related tax effects. See "Pro Forma Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview."

(5) Gives effect to the conversion of all outstanding shares of preferred stock into Common Stock upon the consummation of this offering, the dilutive effect of outstanding options and warrants, and shares to be issued upon the consummation of this offering.

(6) Includes Select Comfort stores operated in leased departments within larger retail stores (one at December 28, 1996, June 28, 1997 and January 3, 1998 and four at October 3, 1998).

(7) For stores open during the entire period indicated.

(8) Stores enter the comparable store calculation in their 13th full month of operation. The number of comparable stores used to calculate such data were 13, 32, 65, 138, 107 and 182 for 1994, 1995, 1996, 1997 and the nine-month periods ended September 27, 1997 and October 3, 1998, respectively.

(9) As adjusted to give effect upon the consummation of this offering to the (i) reclassification of a put warrant from long-term debt to shareholders' equity, (ii) conversion of all outstanding shares of preferred stock into Common Stock, and (iii) application of the estimated net proceeds from the issuance of 2,800,000 shares of Common Stock at an assumed initial public offering price of $16.00 per share, including repayment of $15.0 million of the Company's outstanding indebtedness. See "Use of Proceeds" and "Capitalization."

THE COMPANY'S FISCAL YEAR ENDS ON THE SATURDAY CLOSEST TO DECEMBER 31, AND UNLESS THE CONTEXT OTHERWISE REQUIRES, ALL REFERENCES TO YEARS IN THIS PROSPECTUS REFER TO THE COMPANY'S FISCAL YEARS. ALL REFERENCES TO THE COMPANY HEREIN INCLUDE THE COMPANY'S WHOLLY OWNED SUBSIDIARIES, SELECT COMFORT DIRECT CORPORATION, SELECT COMFORT RETAIL CORPORATION, DIRECT CALL CENTERS, INC. AND SELECT COMFORT SC CORPORATION. UNLESS OTHERWISE INDICATED, THE INFORMATION IN THIS PROSPECTUS (I) GIVES EFFECT TO THE CONVERSION OF ALL OUTSTANDING SHARES OF

PREFERRED STOCK INTO COMMON STOCK UPON THE CONSUMMATION OF THIS OFFERING, AND (II) ASSUMES THAT THE UNDERWRITERS' OVER-ALLOTMENT OPTION WILL NOT BE EXERCISED.

RISK FACTORS

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS AND THE TIMING OF CERTAIN EVENTS COULD DIFFER MATERIALLY FROM THOSE DISCUSSED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THOSE SET FORTH BELOW AND ELSEWHERE IN THIS PROSPECTUS. SEE "CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS." THE FOLLOWING RISK FACTORS SHOULD BE CONSIDERED CAREFULLY IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS BEFORE PURCHASING ANY SHARES OF THE COMMON STOCK OFFERED HEREBY.

HISTORY OF OPERATING LOSSES; UNCERTAIN PROFITABILITY. The Company has incurred substantial operating losses since its inception and had an accumulated deficit of $22.7 million as of October 3, 1998. There can be no assurance that the Company will achieve or sustain profitability on a quarterly or annual basis in future periods. The Company's future operating results will depend upon a number of factors, including (i) the level of consumer acceptance of the Company's products, (ii) the ability of the Company to create product and brand name awareness, (iii) the effectiveness and efficiency of the Company's advertising, (iv) the number and timing of new retail store openings, (v) the performance of the Company's existing and new retail stores, (vi) the ability of the Company to manage its planned rapid store expansion, (vii) the ability of the Company to successfully identify and respond to emerging trends in the mattress industry, (viii) the level of competition in the mattress industry, and (ix) general economic conditions and consumer confidence. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

LIMITED HISTORY OF RETAIL OPERATIONS; AGGRESSIVE GROWTH STRATEGY. The Company's net sales have grown significantly in the past several years primarily as a result of the opening of new retail stores and increases in comparable store sales from year to year. Until recently, the Company generated most of its net sales from its direct marketing operations. The Company opened its first three retail stores in 1992 and operated 19 stores at the end of 1993, 35 stores at the end of 1994, 68 stores at the end of 1995, 143 stores at the end of 1996, 200 stores at the end of 1997 and 244 stores, including four leased departments (three in Bed Bath & Beyond stores) as of October 3, 1998. Virtually all of the Company's retail stores are in mall locations. The Company plans to open approximately 12 additional retail stores and 10 additional leased departments in Bed Bath & Beyond stores in the remainder of 1998 and approximately 50 retail stores in 1999. In addition, the Company expects to expand its leased department concept in 1999. Approximately 54% of the Company's new store openings in 1998 will be in existing markets and the remainder will be in new geographical markets. The opening of additional stores in an existing market could result in lower net sales from existing Company stores in that market. Because the Company will be expanding into new geographic markets, it may face competitive challenges that are different from those encountered to date. The Company's success in any new geographic market will depend on the Company's ability to select appropriate new store sites and to create awareness in the new market through effective marketing and advertising strategies. In addition to adding further mall locations, the Company's retail expansion plans include alternative locations such as strip shopping centers. The Company has limited experience with such alternative locations and its success will depend on the Company's ability to create awareness of, and to attract consumers to, such alternative locations.

The success of the Company's planned expansion will be dependent upon many factors, including the ability of the Company to (i) successfully open additional retail stores in existing geographic markets, (ii) successfully enter new geographic markets and store environments in which the Company has no previous retail experience, (iii) negotiate acceptable lease terms for additional sites, (iv) effectively hire, train, manage and retain qualified management and other personnel, (v) effectively manage the interaction among the Company's multiple distribution channels, (vi) generate additional direct marketing inquiries, (vii) effectively develop strategic alliances with respect to product development, marketing and distribution, and (viii) effectively refer

selected direct marketing inquiries to the retail and road show distribution channels. There can be no assurance that the Company will be able to grow at historical rates or achieve its planned expansion, that new retail stores will be effectively integrated into the Company's existing

operations, that such stores will be profitable or that the Company will be able to establish and maintain profitable strategic alliances. See "Business--Business and Growth Strategy."

ABILITY TO MANAGE GROWTH. The Company's aggressive growth strategy has placed, and will continue to place, a significant strain on the Company's management, production, information systems and other resources. To manage growth effectively, the Company must maintain a high level of manufacturing quality and efficiency, continue to enhance its operational, financial and management systems, including its database management, tracking of inquiries, inventory control and distribution systems, and expand, train and manage its employee base. There can be no assurance that the Company will be able to effectively manage this expansion in any one or more of these areas, and any failure to do so could have a material adverse effect on the Company's business, financial condition and operating results.

All orders are filled by shipments made directly to the customer from one of the Company's two manufacturing and distribution centers located in Minneapolis and in Columbia, South Carolina. The Company believes that its existing manufacturing and distribution facilities will be adequate to support its planned expansion through the next 12 months. Any significant interruption in the operation of either of such facilities would have a material adverse effect on the business, financial condition and operating results of the Company. The Company plans to lease a third manufacturing and distribution center in Salt Lake City, which is expected to be in operation during the first half of 1999, at a cost of approximately $4.5 million. There can be no assurance that the new facility will be completed on time, that the cost to build it will not exceed the Company's estimates or that manufacturing costs for this new facility will not be greater than manufacturing costs at the Company's current facilities in Minnesota and South Carolina. In addition, delays or interruptions in the normal supply of products could occur as the Company attempts to integrate a third manufacturing and distribution center. Any such increases in costs or delays could have a material adverse effect on the Company's business, financial condition and operating results. The Company does not have experience in manufacturing its products in the volumes that it projects will be necessary to support the anticipated increase in sales and may encounter difficulties in scaling up production, including problems involving quality control and assurance, component supply and shortages of qualified personnel. Any failure on the part of the Company in manufacturing its products in volumes sufficient to meet demand could have a material adverse effect on the Company's business, financial condition and operating results. See "Business--Manufacturing and Distribution."

EFFECTIVENESS AND EFFICIENCY OF ADVERTISING EXPENDITURES. The Company's advertising expenditures increased from $5.5 million in 1994 to $28.3 million in 1997, and are expected to continue to increase for the foreseeable future. The Company's future growth and profitability will be dependent in part on the effectiveness and efficiency of the Company's advertising expenditures, including the ability of the Company to (i) create greater awareness of the Company's products and brand name, (ii) determine the appropriate creative message and media mix for future advertising expenditures, (iii) effectively manage advertising costs (including creative and media) in order to maintain acceptable costs per inquiry, costs per order and operating margins, and (iv) convert inquiries into actual orders. Historically, the Company's advertising expenditures have generated revenue benefits beyond the actual duration of the advertisements. There can be no assurance that the Company will experience similar benefits from advertising expenditures in the future. In addition, no assurance can be given that the Company's planned increases in advertising expenditures will result in increased sales, will generate sufficient levels of product and brand name awareness or that the Company will be able to manage such advertising expenditures on a cost effective basis. See "Business--Marketing and Advertising."

FLUCTUATIONS IN COMPARABLE STORE SALES RESULTS. The Company's comparable store sales results, which are computed by comparing sales during the current year with prior year periods for those stores open during the same periods of the current and prior years, have fluctuated significantly in the past and such fluctuations are likely to continue. Stores enter the comparable store calculation in their 13th full month of operation. The Company's comparable store sales increases were 26.1%, 36.8% and 26.9% for 1996, 1997

and the nine months ended October 3, 1998, respectively. The Company's comparable store sales results have fluctuated significantly from quarter to quarter with increases ranging from 8.2% to 62.0% on a quarterly basis for 1996 and 1997. There can be no assurance that the Company's comparable store sales results will not fluctuate significantly in the future. A variety of factors affect the Company's comparable store sales results, including (i) the level of consumer awareness of Select Comfort's products and brand name, (ii) the rate of consumer acceptance of the Company's products, (iii) the higher levels of sales in the first year of operations as each successive class of new stores is opened, (iv) the strong comparable store sales performance in recent periods, (v) the maturation of its store base, (vi) the timing and relative success of promotional events, advertising expenditures, new product introductions and product line extensions, and (vii) general economic conditions and consumer confidence. In addition, the Company's higher per unit prices and lower number of transactions relative to other mall-based retailers may cause greater volatility in the Company's comparable store sales results. Additionally, due to the integrated nature of the Company's distribution channels, the relative level of the Company's net sales may fluctuate between retail and direct marketing, which may contribute to fluctuations in comparable store sales results. Changes in comparable store sales results could cause the price of the Common Stock to fluctuate substantially.

QUARTERLY FLUCTUATIONS AND SEASONALITY. The Company's quarterly operating results may fluctuate significantly as a result of a variety of factors, including increases or decreases in comparable store sales, the timing, amount and effectiveness of advertising expenditures, any increases in return rates, the timing of new store openings and related expenses, competitive factors, net sales contributed by new stores, any disruptions in third party delivery services and general economic conditions and consumer confidence. The Company's business is also subject to some seasonal influences, with heavier concentrations of sales during the fourth quarter holiday season due to higher mall traffic. During the third quarter of 1997, the United Parcel Service ("UPS") work stoppage resulted in delayed delivery of the Company's products, requiring the Company to use alternative carriers. Additionally during that period, the Company converted its manufacturing and financial operations to a new integrated information system, which further contributed to delays in fulfilling customer orders. These factors resulted in higher than normal customer returns, canceled orders and substantially increased freight charges, which had a material adverse effect on the Company's operating results in the second half of 1997. See "--Reliance Upon Carriers."

A substantial portion of the Company's operating expenses is related to sales and marketing expenses, including costs associated with opening new stores and advertising and marketing expenditures. The level of such spending cannot be adjusted quickly and is based, in significant part, on the Company's expectations of future customer inquiries and net sales. Furthermore, the Company has often realized a substantial portion of its net sales in the last month of a quarter, with such net sales frequently concentrated in the last weeks or days of a quarter, due in part to its promotional schedule. If there is a shortfall in expected net sales or in the conversion rate of customer inquiries, the Company may be unable to adjust its spending in a timely manner and the Company's business, financial condition and operating results may be materially adversely affected. The Company's results of operations of any quarter are not necessarily indicative of the results that may be achieved for a full year or any future quarter.

The Company expects to incur certain charges in the period in which this offering is consummated in connection with an outstanding put warrant and with the repayment of certain indebtedness with a portion of the net proceeds of this offering. Based on an assumed initial public offering price of $16.00 per share, the Company estimates that the interest expense associated with the outstanding

put warrant will not have a material impact on the Company's results of operations. However, if the initial public offering price is greater than $16.00 per share, the amount of such interest expense will be larger and may have a material impact on the Company's results of operations. The charge associated with the repayment of certain indebtedness is estimated to be approximately $1.7 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview."

RETURN POLICY AND PRODUCT WARRANTY. Part of the Company's marketing and advertising strategy focuses on providing a 90 Night Trial in which customers may return the air bed and obtain a refund of the

purchase price. As the Company expands its sales, there can be no assurance that its return rates will remain within acceptable levels. An increase in return rates could have a material adverse effect on the Company's business, financial condition and operating results. The Company also provides its customers with a limited 20-year warranty on its air beds. Although the Company has performed extensive testing to enable it to project warranty claims over the 20-year warranty period, the Company has only been selling air beds in significant quantities since 1992. There can be no assurance that the Company's warranty reserves will be adequate to cover future warranty claims, and such failure could have a material adverse effect on the Company's business, financial condition and operating results.

PRODUCT DEVELOPMENT AND ENHANCEMENTS. The Company's growth and future success will depend upon its ability to enhance its existing products and to develop and market new products on a timely basis that respond to customer needs and achieve market acceptance. The Company is pursuing opportunities to enter into strategic alliances with manufacturers of adjustable frame beds and sofa sleepers. There can be no assurance that the Company will be successful in developing or marketing enhanced or new products, or that any such products will be accepted by the market. There can also be no assurance that the Company will be able to establish and maintain profitable strategic alliances. Further, there can be no assurance that the resulting level of sales of any of the Company's enhanced or new products will justify the costs associated with their development and marketing. See "Business--Business and Growth Strategy" and "--Research and Product Development."

MARKET ACCEPTANCE. The U.S. mattress market is dominated by four large manufacturers of innerspring mattresses. The Company's air bed technology represents a significant departure from traditional innerspring mattresses. The market for air beds is continuing to evolve and the success of the Company's products will be dependent upon both the continued growth of this market and upon market acceptance of the Company's air beds. The failure of the Company's air beds to achieve market acceptance for any reason would have a material adverse effect on the Company's business, financial condition and operating results.

DEPENDENCE ON CONSUMER SPENDING. The success of the Company's operations depends to a significant extent upon a number of factors relating to discretionary consumer spending. These factors include economic conditions such as employment levels, business conditions, interest rates, availability of credit, inflation and taxation. Downturns in such economic conditions or in consumer confidence could have a negative effect on discretionary spending. Because a high percentage of the Company's net sales are made on credit, any downturn in general economic conditions or increases in interest rates may materially adversely affect the Company's business, financial condition and operating results. The Company is also dependent upon the continued popularity of malls as shopping destinations and the ability of mall anchor tenants and other attractions to generate customer traffic for the Company's retail stores. A decrease in mall traffic could adversely affect the Company's growth, net sales, comparable store results and profitability.

RELIANCE UPON VENDORS; FOREIGN SOURCES OF SUPPLY. All of the air chambers for the Company's air beds are purchased from one Eastern European supplier under a supply contract expiring in August 1999, pursuant to which the Company is obligated to purchase certain minimum quantities, but not all of its requirements. Either party can terminate the contract upon 90 days notice if such party ceases to use the air chambers in its business. The Company believes that it would be able to procure an adequate supply of air chambers from other sources on a timely basis if the supply contract is terminated or the Eastern

European supplier is otherwise unable to supply air chambers. The Company has recently completed the development of an air chamber designed with new materials that will be manufactured by a U.S. based company at a foreign manufacturing facility. Full production of this new air chamber is expected to commence in the third quarter of 1999. The Eastern European supplier is expected to provide a second source of supply of this new air chamber during the second half of 1999. The Company does not presently have any contract or commitment from either supplier to manufacture the newly developed air chamber.

The Company is continuously searching for alternative designs and materials for all of its components, as well as alternative sources of supply. The inability of the Company's sources of supply to meet, for any reason, the Company's requirement for air chambers could have a material adverse effect on the Company's business, financial condition and operating results. In addition, since the Company's air chambers and other supplies are manufactured outside the United States, the Company's operations could be materially adversely affected by the risks associated with foreign sourcing of materials, including (i) political instability resulting in disruption of trade, (ii) existing or potential duties, tariffs or quotas that may limit the quantity of certain types of goods that may be imported into the United States or increase the cost of such goods, and (iii) any significant fluctuation in the value of the dollar against foreign currencies.

With the exception of its air chambers, the Company has no long-term purchase contracts or other contractual assurances of continued supply, pricing or access to components. The inability or failure of one or more key vendors to supply components, the loss of one or more key vendors or a material change in the Company's purchase terms could have a material adverse effect on the Company's business, financial condition and operating results. See "Business--Suppliers" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

RELIANCE UPON CARRIERS. Historically, the Company has relied almost exclusively on UPS for delivery of the Company's products to customers. For a significant portion of the third quarter of 1997, UPS was unable to deliver the Company's products within acceptable time periods, causing delays in deliveries to customers and requiring the Company to use alternative carriers. This contributed to substantially greater freight charges and canceled orders, which had a material adverse effect on the Company's operating results in the second half of 1997. Due to the extensive national distribution system and cost effectiveness of UPS, the Company has continued to rely primarily on UPS for deliveries to customers. No assurance can be given that UPS will not experience difficulties in meeting the Company's requirements in the future. The Company continues to evaluate alternative carriers on a national and regional basis, as well as providers of in-home assembly services. There can be no assurance that alternative carriers will be able to meet the Company's requirements on a timely or cost-effective basis. Any significant delay in deliveries to customers or increase in freight charges may have a material adverse effect on the Company's business, financial condition and operating results.

COMPETITION. The mattress industry is highly competitive. Participants in the mattress industry compete primarily on price, quality, brand name recognition, product availability and product performance, including the perceived levels of comfort and support provided by a mattress. The Company's air beds compete with a number of different types of mattress alternatives, including innerspring mattresses, waterbeds, futons and other air-supported mattresses that are sold through a variety of channels, including furniture stores, bedding specialty stores, department stores, mass merchants, wholesale clubs, telemarketing programs, television infomercials and catalogs. The Company believes that its success depends in part on increasing consumer awareness and acceptance of the Company's existing products and continuing to introduce products that have qualities and benefits which differentiate the Company's products from those offered by other manufacturers. There can be no assurance that such products will receive consumer acceptance or that the Company will continue to be able to successfully introduce such products.

The traditional mattress industry is characterized by a high degree of concentration among the four largest manufacturers of innerspring mattresses with nationally recognized brand names, including Sealy, which also owns the Stearns & Foster brand name, Serta, Simmons and Spring Air. These manufacturers were estimated by FURNITURE/TODAY to account for approximately 62% of wholesale dollar sales in 1997. The balance of the mattress market is served by over 700

manufacturers, primarily operating on a regional basis. The traditional mattress distribution channels and the estimated market shares in 1997, according to the International Sleep Products Association ("ISPA"), were furniture stores (42%), specialty bedding stores (24%), department stores (11%), national chains (8%), wholesale clubs (6%) and others, including telephone and electronic shopping channels (9%). Between 1993 and 1997, specialty bedding stores

increased their share of the market from 19% to 24%. Many of these competitors, and in particular the four largest manufacturers named above, have greater financial, marketing and manufacturing resources and better brand name recognition than the Company, and sell their products through broader and more established distribution channels. The Company believes that a number of companies, including two of the four largest manufacturers, have begun to offer air beds. There can be no assurance that these or any other mattress manufacturers will not aggressively pursue the air bed market. Any such competition by the established manufacturers or new entrants into the market could have a material adverse effect on the Company's business, financial condition and operating results. In addition, should any of the Company's competitors reduce prices on premium mattress products, the Company may be required to implement price reductions in order to remain competitive, which could have a material adverse effect on its business, financial condition and operating results. There are no provisions in the Company's retail store leases that limit or restrict competing businesses from operating in the malls in which the Company's stores are located. The lack of such restrictions and the lack of significant barriers to entry may result in new competition. See "Business--Competition."

REGULATORY MATTERS. The Company's products and its marketing and advertising practices are subject to regulation by various federal, state and local regulatory authorities, including the Federal Trade Commission and the U.S. Food and Drug Administration. The mattress industry also engages in advertising self-regulation through certain voluntary forums, including the National Advertising Division (the "NAD") of the Better Business Bureau. The Company's advertising campaigns have in the past been the subject of proceedings before the NAD. As a result of such proceedings, the Company has made minor modifications to its advertising literature. There can be no assurance that the Company's marketing and advertising practices will not be the subject of further proceedings before regulatory authorities or the NAD, or the subject of claims by other parties. The Company is also subject to various other federal, state and local regulatory requirements, including federal, state and local environmental regulation and regulations issued by the U.S. Occupational Safety and Health Administration. There can be no assurance that the Company will not experience any material adverse effects on its business, financial condition or operating results as a result of such regulatory requirements.

YEAR 2000 COMPLIANCE. The Company and third parties with which the Company does business rely on numerous computer programs in their day to day operations. There can be no assurance that the Company will be able to effectively address its Year 2000 issues in a timely and cost-efficient manner and without interruption to its business. The Company has initiated discussions with its significant suppliers regarding their plans to remediate Year 2000 issues where their systems interface with the Company's systems or otherwise impact its operations. There can be no assurance that Year 2000 difficulties encountered by its suppliers and other third parties with whom it does business will not have a material adverse impact on the Company's business, financial condition or operating results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Impact of Year 2000."

DEPENDENCE ON KEY PERSONNEL. The success of the Company's business will continue to be dependent upon the efforts of its key operating officers and employees, including H. Robert Hawthorne, President, Chief Executive Officer and a director, and Daniel J. McAthie, Executive Vice President, Chief Financial Officer and Chief Operating Officer. The loss of either of these executive officers, or other key personnel, could have a material adverse effect on the Company's business, financial condition and operating results. In addition, the Company's success in the future will be dependent upon its ability to attract, retain and motivate qualified personnel, including retail store managers.

INTELLECTUAL PROPERTY PROTECTION. The Company currently holds a number of

U.S. and Canadian patents, and has various U.S. and international patent applications pending, with respect to certain aspects of the design, technology and function of its products. Notwithstanding these patents and patent applications, no assurance can be given that such rights will provide substantial protection or that others will not be able to develop products that are similar to or competitive with the Company's air beds. The Company

also relies on a combination of copyright, trademark, trade secret, unfair competition and other intellectual property laws, nondisclosure agreements and other protective measures to protect its rights. Such protections, however, may not preclude competitors from developing products similar to the Company's products or otherwise competing with the Company. In addition, the laws of certain foreign countries may not protect the Company's intellectual property rights and confidential information to the same extent as the laws of the United States. Although the Company is unaware of any basis for an intellectual property infringement or invalidity claim against it, there can be no assurance that third parties, including competitors, will not assert such claims against the Company or that, if asserted, such claims will not be upheld. Intellectual property litigation, which could result in substantial cost to and diversion of effort by the Company, may be necessary to enforce patents issued to the Company, to protect trade secrets or proprietary technology owned by the Company or to defend the Company against claimed infringement of the rights of others and to determine the scope and validity of the proprietary rights of others. There can be no assurance that the Company would prevail in any such litigation or that, if it is unsuccessful, the Company would be able to obtain any necessary licenses on reasonable terms or at all. See "Business-- Intellectual Property."

CONTROL BY DIRECTORS AND EXECUTIVE OFFICERS. The Company's directors, executive officers and their affiliates will, in the aggregate, beneficially own approximately 46.2% of the Company's outstanding Common Stock after this offering. Although the Company does not know of the existence of any agreements among such shareholders with respect to the voting of their shares, if they were to act in concert, they would be able to elect all of the Company's directors, increase the Company's authorized capital stock, dissolve, merge or sell the assets of the Company, effect other fundamental corporate transactions requiring shareholder approval, including delaying, deterring or preventing a change in control of the Company, and generally direct the affairs of the Company. See "Principal and Selling Shareholders."

LACK OF PRIOR PUBLIC MARKET; POSSIBLE VOLATILITY OF STOCK PRICE. Prior to this offering, there has been no public market for the Common Stock, and there can be no assurance that an active trading market will develop or be sustained. The initial public offering price for the shares of Common Stock to be sold in this offering will be determined by agreement among the Company, the Selling Shareholders and the representatives of the Underwriters and may bear no relationship to the price at which the Common Stock will trade after completion of this offering. For a discussion of the factors to be considered in determining the initial public offering price, see "Underwriting."

The stock market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of the Company's Common Stock. In addition, the market price of the Common Stock is likely to be highly volatile. Factors such as fluctuations in the Company's operating results, including sales volume growth and comparable store sales, a downturn in the retail industry, changes in stock market analysts' recommendations regarding the Company, other retail companies or the retail industry in general and general market and economic conditions may have a significant effect on the market price of the Common Stock.

SHARES ELIGIBLE FOR FUTURE SALE. The sale of substantial amounts of the Company's Common Stock in the public market following this offering could adversely affect the market price of the Common Stock and could impair the Company's ability to raise capital in the future through the sale of its equity securities. Upon completion of the offering, the Company will have 18,045,094 shares of Common Stock outstanding. Of these shares, the 4,000,000 shares of Common Stock offered hereby will be freely tradable. Of the remaining shares, 12,215,075 shares are subject to lock-up agreements expiring 180 days after the date of this Prospectus. Upon expiration of these agreements, 12,120,553 shares

of Common Stock will be eligible for immediate resale in the public market subject to the limitations of Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"). Of such shares, approximately 4,067,374 shares will be eligible for

resale in the public market pursuant to Rule 144(k) without regard to the volume and manner of sale limitations in Rule 144. Of the 1,830,019 shares not subject to lock-up agreements, 1,552,582 shares will be eligible for immediate resale in the public market pursuant to Rule 144(k) and the remainder will be eligible for resale in the public market subject to the limitations of Rule 144. The Company intends to file a registration statement on Form S-8 within 30 days after the completion of this offering to register the shares of Common Stock reserved for issuance upon the exercise of outstanding stock options. As of October 3, 1998, options to purchase approximately 541,045 shares not subject to lock-up agreements were vested and would be eligible for sale pursuant to such registration statement. In addition, certain existing shareholders and warrantholders have the right to register shares of Common Stock for sale in the public market. See "Shares Eligible for Future Sale" and "Description of Capital Stock--Registration Rights."

ANTI-TAKEOVER CONSIDERATIONS. The Company's Articles of Incorporation (the "Articles") provide for a classified Board of Directors (the "Board") serving staggered terms of three years. The Articles also require the approval of two-thirds of the outstanding voting power of the Company entitled to vote in the event of any sale or merger of the Company. Under the Articles, the Board has the authority, without shareholder approval, to issue up to 5,000,000 shares of undesignated preferred stock (the "Undesignated Preferred Stock") and to fix the rights and preferences thereof. This authority, together with the super-majority shareholder voting requirements and the staggered Board, may have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of the Company, even if shareholders purchasing shares in this offering may consider such a change in control to be in their best interests. In addition, Minnesota law contains certain provisions that may have the effect of delaying, deterring or preventing a hostile takeover of the Company. See "Description of Capital Stock--Provisions with Potential Anti-Takeover Effect."

DILUTION. The initial public offering price per share is substantially higher than the net tangible book value per share of Common Stock. New investors purchasing Common Stock in this offering will incur immediate and substantial dilution of $12.44 in net tangible book value per share of Common Stock purchased. See "Dilution."

CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Prospectus that are not purely historical are forward-looking statements, including statements regarding the Company's expectations, hopes, beliefs, intentions or strategies regarding the future. Statements which use the words "expects," "will," "may," "anticipates," "believes," "intends," and "seeks" are forward-looking statements. These forward-looking statements, including statements regarding the Company's efforts to increase store level profitability and plans to open new retail stores and develop new products, are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statement. It is important to note that the Company's actual results could differ materially from those in such forward-looking statements. Among the factors that could cause actual results to differ materially are the factors set forth under the heading "Risk Factors." In particular, the success of the Company will be dependent upon many factors, including (i) the level of consumer acceptance of the Company's products, (ii) the ability of the Company to create product and brand name awareness, (iii) the effectiveness and efficiency of the Company's advertising, (iv) the number and timing of new retail store openings, (v) the performance of the Company's existing and new retail stores, (vi) the ability of the Company to manage its planned rapid store expansion, (vii) the ability of the Company to successfully identify and respond to emerging trends in the mattress industry, (viii) the level of competition in

the mattress industry, and (ix) general economic conditions and consumer confidence. There can be no assurance that the Company will be able to achieve its planned expansion, that new stores will be effectively integrated into the Company's existing operations, that new or existing stores will be profitable or that the Company will be able to establish and maintain profitable strategic alliances.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 2,800,000 shares of Common Stock offered by the Company hereby at an assumed initial public offering price of $16.00 per share are estimated to be $40.7 million, after deducting the underwriting discount and estimated offering expenses payable by the Company. The Company intends to use such net proceeds as follows: (i) approximately $15.0 million to repay long-term debt; (ii) approximately $6.5 million to fund expansion of its retail store base; (iii) approximately $4.5 million to fund the build-out, start-up and leasing of its third manufacturing and distribution facility scheduled for completion during the first half of 1999; and (iv) the remainder for general corporate purposes, including working capital and for possible acquisitions of complementary products, technologies or businesses. The Company has no current plans to undertake any acquisitions of a material nature. The Company's $15.0 million of long-term debt intended to be repaid with a portion of the net proceeds of this offering bears interest at 11% per annum and is due March 31, 2003. The $15.0 million in long-term debt is owed by the Company to General Electric Capital Corporation, a beneficial owner of approximately 7.9% of the Company's Common Stock immediately prior to this offering. The proceeds of such indebtedness were used to fund expansion of the Company's retail store base and for general corporate purposes. Pending application of the net proceeds described above, the Company intends to invest the net proceeds in short-term, interest-bearing, investment-grade securities. The Company will not receive any proceeds from the sale of Common Stock by the Selling Shareholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" and "Principal and Selling Shareholders."

DIVIDEND POLICY

To date, the Company has neither declared nor paid cash dividends on shares of its Common Stock. The Company currently intends to retain future earnings, if any, to fund the development and growth of its business and, therefore, does not anticipate paying any cash dividends in the foreseeable future. The payment of any future dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other things, the Company's future earnings, capital requirements and financial condition and general business conditions. The Company's current debt agreement contains various financial covenants, including covenants relating to net worth, which may have the effect of restricting the Company's ability to pay dividends. This agreement will terminate upon repayment of the $15.0 million outstanding thereunder from a portion of the net proceeds of this offering.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of October 3, 1998 on an (i) actual basis and (ii) as adjusted basis after giving effect to the conversion of all outstanding shares of preferred stock into shares of Common Stock upon the consummation of this offering, the reclassification of certain warrants from long-term debt to common shareholders' equity upon the consummation of this offering, and the receipt and the application of the estimated net proceeds from the sale of the shares of Common Stock offered by the Company hereby at an assumed initial public offering price of $16.00 per share. The table should be read in conjunction with the Consolidated Financial Statements of the Company and the Pro Forma Consolidated Financial Statements and the Notes thereto included elsewhere in this Prospectus.

	OCTOBER 3, 1998	
	ACTUAL	AS ADJUSTED(1)
	(IN THOUSANDS)	
Current maturities of long-term debt	$ 1,052	$ 1,052
Long-term debt, less current maturities	$ 24,244	$ 167
Mandatorily redeemable preferred stock	27,612	--
Common shareholders' equity (deficit):		
Undesignated preferred stock, 5,000,000 shares authorized, no shares issued and outstanding actual, as adjusted	--	--
Common stock, $0.01 par value, 95,000,000 shares authorized, 2,989,885 shares issued and outstanding, actual; 18,045,094 shares issued and outstanding, as adjusted(2)	30	180
Additional paid-in capital	3,328	82,346
Accumulated deficit	(22,720)	(24,439)
Notes receivable--investors	(994)	(994)
Total common shareholders' equity (deficit)	(20,356)	57,093
Total capitalization	$ 31,500	$ 57,260

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(1) See Pro Forma Consolidated Financial Statements.

(2) Excludes (i) an aggregate of 3,247,478 shares of Common Stock issuable upon exercise of stock options and warrants outstanding as of October 3, 1998 at a weighted average exercise price of $7.31 per share and (ii) an aggregate of up to 125,000 shares of Common Stock issuable upon exercise of employee stock options expected to be granted in connection with this offering at an exercise price per share equal to the initial public offering price. See "Management--Stock Option and Incentive Plans" and "Description of Capital Stock--Options and Warrants."

DILUTION

As of October 3, 1998, the Company had a net tangible book value of approximately $32.2 million or $1.82 per share of Common Stock, giving effect to the conversion of all outstanding shares of preferred stock into Common Stock, the exercise of stock options and warrants to purchase 2,384,927 shares of Common Stock, which were exercisable as of October 3, 1998, and the reclassification of certain warrants from long-term debt to common shareholders' equity upon the consummation of this offering. Net tangible book value per share represents the amount of the Company's common shareholders' equity (deficit), less intangible assets, divided by the number of shares of Common Stock outstanding. After giving effect to the sale of the 2,800,000 shares of Common Stock offered by the Company hereby at an assumed initial public offering price of $16.00 per share and the application of the estimated net proceeds therefrom, the net tangible book value of the Company as of October 3, 1998 would have been approximately $72.8 million, or approximately $3.56 per share. This represents an immediate increase in net tangible book value of $1.74 per share to existing shareholders and an immediate dilution in net tangible book value of $12.44 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$ 16.00
Net tangible book value per share before the offering	$ 1.82	
Increase per share attributable to new investors	1.74	
Net tangible book value per share after the offering		3.56
Dilution per share to new investors		$ 12.44

The following table summarizes, as of October 3, 1998, the differences between the existing shareholders and the new investors with respect to the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid (based upon an assumed initial public offering price of $16.00 per share):

	SHARES PURCHASED(1)		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing shareholders(2)....	17,630,021	86.3%	$ 48,570,003	52.0%	$ 2.75
New investors.....	2,800,000	13.7	44,800,000	48.0	16.00
Total.....	20,430,021	100.0%	$ 93,370,003	100.0%	$ 4.57

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(1) Sales by the Selling Shareholders in this offering will reduce the number of shares held by the existing shareholders to 16,430,021 or approximately 80.4% (15,830,021 shares or approximately 77.5% if the underwriter's over-allotment option is exercised in full) and will increase the number of shares held by new investors to 4,000,000 or approximately 19.6% (4,600,000 or approximately 22.5% if the over-allotment option is exercised in full) of the total number of shares of Common Stock outstanding after this offering. See "Principal and Selling Shareholders."

(2) Assumes the exercise of stock options and warrants to purchase 2,384,927 shares of Common Stock at a weighted average exercise price of $7.38 per share, which were exercisable as of October 3, 1998. Does not include the exercise of stock options to purchase 862,551 shares at a weighted average exercise price of $7.12 per share as of October 3, 1998. See "Management--Stock Option and Incentive Plans" and "Description of Capital Stock--Options and Warrants."

SELECTED CONSOLIDATED FINANCIAL DATA

The Consolidated Statements of Operations Data presented below for the years ended December 30, 1995, December 28, 1996 and January 3, 1998 and the nine months ended October 3, 1998 and the Consolidated Balance Sheet Data as of December 28, 1996, January 3, 1998 and October 3, 1998 are derived from the Company's consolidated financial statements included elsewhere in this Prospectus, which have been audited by KPMG Peat Marwick LLP, independent certified public accountants, and should be read in conjunction with those consolidated financial statements and notes thereto. The Consolidated Statements of Operations Data presented below for the year ended December 31, 1994 and the Consolidated Balance Sheet Data as of December 31, 1994 and December 30, 1995 are derived from audited consolidated financial statements of the Company not included herein. The Consolidated Statement of Operations Data presented below for the year ended December 31, 1993 and the Consolidated Balance Sheet Data as of December 31, 1993 are derived from the unaudited consolidated financial statements of the Company which, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial information set forth therein. The Consolidated Statements of Operations Data presented below for the nine months ended September 27, 1997 and the Pro Forma Consolidated Statements of Operations

Data for all periods shown, are derived from the Company's unaudited consolidated financial statements included elsewhere in this Prospectus which, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial information set forth therein. The consolidated results of operations for the nine months ended October 3, 1998 are not necessarily indicative of the results to be expected for the entire year ending January 2, 1999 or for any future period. The information presented below under the caption "Selected Operating Data" is unaudited.

	YEAR ENDED(1)					NINE MONTHS ENDED	OCT. 3, 1998
	DEC. 31, 1993	DEC. 31, 1994	DEC. 30, 1995	DEC. 28, 1996	JAN. 3, 1998	SEPT. 27, 1997	
	(IN THOUSANDS, EXCEPT PER SHARE AND SELECTED OPERATING DATA)						
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:							
Net sales	$ 14,041	$ 30,472	$ 68,629	$ 102,028	$ 184,430	$ 126,470	$ 178,835
Cost of sales	5,820	11,052	28,833	38,521	66,629	44,886	62,290
Gross margin	8,221	19,420	39,796	63,507	117,801	81,584	116,545
Operating expenses:							
Sales and marketing	7,391	16,331	34,164	54,814	99,218	69,476	95,231
General and administrative	3,583	6,386	10,221	12,457	16,505	11,593	13,932
Total operating expenses	10,974	22,717	44,385	67,271	115,723	81,069	109,163
Operating income (loss)	(2,753)	(3,297)	(4,589)	(3,764)	2,078	515	7,382
Other income (expense), net	1	(74)	29	79	(4,783)	(3,023)	(6,447)
Income (loss) before income taxes	(2,752)	(3,371)	(4,560)	(3,685)	(2,705)	(2,508)	935
Income tax expense	--	--	--	--	141	16	1,348
Net loss	$ (2,752)	$ (3,371)	$ (4,560)	$ (3,685)	$ (2,846)	$ (2,524)	$ (413)
Cumulative preferred dividends	--	--	--	$ (900)	$ (900)	$ (675)	$ (675)
Net loss available to common shareholders	$ (2,752)	$ (3,371)	$ (4,560)	$ (4,585)	$ (3,746)	$ (3,199)	$ (1,088)
Net loss per share(2):							
Basic	$ (2.16)	$ (2.65)	$ (3.16)	$ (2.61)	$ (1.59)	$ (1.39)	$ (0.40)
Diluted	$ (1.90)	$ (2.32)	$ (2.81)	$ (2.37)	$ (1.48)	$ (1.29)	$ (0.37)
Weighted average common shares:							
Basic	1,272	1,274	1,444	1,753	2,353	2,309	
Diluted	1,450	1,453	1,623	1,932	2,532	2,488	
Pro forma net income(3)					$ 1,583	$ 162	
Pro forma net income per share, diluted(3)					$ 0.09	$ 0.01	
Pro forma weighted average common shares, diluted(4)					18,288	18,813	

Weighted average common shares:	
Basic	2,746
Diluted	2,924
Pro forma net income(3)	$ 5,988
Pro forma net income per share, diluted(3)	$ 0.31
Pro forma weighted average common shares, diluted(4)	19,632

	YEAR ENDED(1)					NINE MONTHS ENDED
	DEC. 31, 1993	DEC. 31, 1994	DEC. 30, 1995	DEC. 28, 1996	JAN. 3, 1998	SEPT. 27, 1997
	(IN THOUSANDS, EXCEPT PER SHARE AND SELECTED OPERATING DATA)					
SELECTED OPERATING DATA:						
Stores open at period-end(5)	19	35	68	143	200	190
Average square footage of stores open during period(6)	668	642	703	768	866	866
Sales per square foot(6)	$ 401	$ 442	$ 611	$ 622	$ 666	$ 460
Average store age (in months at period end)	5	12	15	15	22	20
Comparable store sales increase(7)	--	57.6%	59.8%	26.1%	36.8%	26.7%

	OCT. 3, 1998
SELECTED OPERATING DATA:	
Stores open at period-end(5)	244
Average square footage of stores open during period(6)	895
Sales per square foot(6)	$ 543
Average store age (in months at period end)	26
Comparable store sales increase(7)	26.9%

	DEC. 31, 1993	DEC. 31, 1994	DEC. 30, 1995	DEC. 28, 1996	JAN. 3, 1998	OCT. 3, 1998
	(IN THOUSANDS)					
CONSOLIDATED BALANCE SHEET DATA:						
Cash and cash equivalents	$ 635	$ 3,770	$ 6,862	$ 2,422	$ 12,670	$ 9,579
Working capital	260	2,614	2,734	(7,809)	757	3,606
Total assets	5,873	14,243	23,838	29,794	57,241	63,323
Long-term debt, less current maturities	109	77	40	1,162	19,511	24,244
Mandatorily redeemable preferred stock	10,130	18,669	27,625	27,612	27,612	27,612
Total common shareholders' deficit	(7,333)	(10,592)	(14,779)	(18,216)	(21,038)	(20,356)

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(1) Except for the year ended January 3, 1998, which included 53 weeks, all years presented included 52 weeks.

(2) See Note 11 of Notes to Consolidated Financial Statements.

(3) Includes pro forma adjustments for (i) the elimination of non-cash interest expense associated with a put warrant, the put feature of which will terminate upon the consummation of this offering, (ii) the elimination of interest expense associated with repayment of $15.0 million of the Company's outstanding indebtedness from the proceeds of this offering, and (iii) related tax effects. See Pro Forma Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview."

(4) Gives effect to the conversion of all outstanding shares of preferred stock into Common Stock upon the consummation of this offering, the dilutive effect of outstanding options and warrants, and shares to be issued upon the consummation of this offering.

(5) Includes Select Comfort stores operated in leased departments within larger retail stores (one at December 28, 1996, June 28, 1997 and January 3, 1998 and four at October 3, 1998).

(6) For stores open during the entire period indicated.

(7) Stores enter the comparable store calculation in their 13th full month of operation. The number of comparable stores used to calculate such data were 13, 32, 65, 138, 107 and 182 for 1994, 1995, 1996, 1997 and the nine months ended September 27, 1997 and October 3, 1998, respectively.

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

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH "SELECTED CONSOLIDATED FINANCIAL DATA" AND THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS AND THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AND THE NOTES THERETO INCLUDED ELSEWHERE IN THIS PROSPECTUS. EXCEPT FOR THE HISTORICAL INFORMATION CONTAINED HEREIN, THE DISCUSSION IN THIS PROSPECTUS CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY'S PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS. THE CAUTIONARY STATEMENTS MADE IN THIS PROSPECTUS SHOULD BE READ AS BEING APPLICABLE TO ALL RELATED FORWARD-LOOKING STATEMENTS WHENEVER THEY APPEAR IN THIS PROSPECTUS. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE DISCUSSED HERE. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE THOSE DISCUSSED IN "RISK FACTORS," AS WELL AS THOSE DISCUSSED ELSEWHERE HEREIN. SEE "CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS."

OVERVIEW

Select Comfort was founded in 1987 and has become the leading vertically integrated manufacturer, specialty retailer and direct marketer of innovative air beds and sleep-related products. The Company's initial focus was on its direct marketing operations which have grown in depth and sophistication and now provide critical support for the Company's retail and road show distribution channels. Since the Company's first retail stores were opened in 1992, an increasing percentage of the Company's net sales has occurred at the Company's retail stores, and retail store sales now account for a majority of the Company's net sales. In 1994, the Company established its road show distribution channel, which focuses primarily on markets where the Company does not have retail stores.

The Company's vertically integrated operations and control over its three separate but complementary distribution channels enable it to develop and maintain direct customer relationships as well as leverage its advertising dollars. The Company's sales generation is driven by targeted print, radio and television media which generate customer inquiries that historically were pursued primarily through the Company's direct marketing operations. As the Company's retail store base has expanded, the Company believes it has been able to further leverage the direct marketing infrastructure and improve the process of converting inquiries into sales. The Company has also enhanced its marketing programs at its retail stores to focus more on increasing customer traffic, including a number of in-store activities and promotions. The Company believes that its direct marketing operations will also continue to play a significant role in building consumer awareness and product sales. The Company believes that its sales will continue to grow for the foreseeable future as the Company increases its advertising expenditures and opens additional retail stores, and as consumer awareness of the Company's products and brand name increases. The magnitude of future sales growth will depend on the ability of the Company to create greater awareness of the Company's products and brand name, the

effectiveness and efficiency of the Company's advertising, the ability of the Company to generate consumer inquiries and drive consumer traffic to its retail stores, and the ability of the Company to convert customer inquiries into orders.

The Company's retail operations included 143 stores as of December 28, 1996, 200 stores as of January 3, 1998 and 244 stores, including four leased departments within larger retail stores (three in Bed Bath & Beyond stores), at October 3, 1998. The Company plans to open approximately 12 additional retail stores and 10 additional leased departments in Bed Bath & Beyond stores in the remainder of 1998 and approximately 50 additional retail stores in 1999. In addition, the Company expects to expand its leased department concept in 1999. The Company expects that approximately 46% of the 1998 retail store openings, including leased departments, will be in new markets. To date, the Company has closed four stores.

Historically, the Company has experienced strong comparable store sales growth, reporting increases of 26.1%, 36.8% and 26.9% in 1996, 1997 and the first nine months of 1998, respectively. The Company believes this performance is due to increased awareness of the Select Comfort brand and its product

benefits, the relatively young age of the Company's store base and various initiatives implemented in recent periods related to the Company's increased emphasis on the retail distribution channel. These initiatives include (i) a change in focus of advertising toward brand awareness, (ii) the evolution of the Company's retail store operations, including improvements in store design, and (iii) the closer integration of the Company's direct marketing and retail distribution channels. Comparable store sales results in the future will be influenced by a variety of factors. See "Risk Factors--Fluctuations in Comparable Store Sales Results."

The Company's advertising expenditures increased from $5.5 million in 1994 to $28.3 million in 1997. The Company expenses advertising costs as incurred as a component of sales and marketing expenses, although the Company believes that advertising expenditures provide significant benefits beyond the period in which they are expensed. The Company also expenses pre-opening costs associated with new retail stores as incurred. The Company's future advertising expenditures will depend on the effectiveness and efficiency of the advertising in creating awareness of the Company's products and brand name, generating consumer inquiries and driving consumer traffic to the Company's retail stores. Although advertising expenditures are expected to continue to increase in the foreseeable future, such increases are expected to be at a lower rate than historical increases.

The Company believes its historical operating losses have been primarily the result of an aggressive retail store opening strategy, a relatively immature store base, significant marketing, advertising and research and development expenditures, and the development of a substantial corporate infrastructure to support future growth. Future increases in net sales and the achievement of long-term profitability will depend upon greater consumer awareness and acceptance of the Company's products, the opening and successful performance of new retail stores, and continued improvement in the performance of its current stores as they mature. There can be no assurance that the Company will be able to achieve or sustain its historical sales growth or profitability in the future, on a quarterly or annual basis. See "Risk Factors-- History of Operating Losses; Uncertain Profitability."

In connection with its March 1997 $15.0 million debt financing, the Company issued a warrant that contained a put feature. This put feature requires the Company to record the warrant as long-term debt at its fair value. Furthermore, any change in the fair value of this warrant is required to be reflected as

interest expense, which resulted in non-cash interest expense of $3.3 million, $1.9 million and $5.2 million during 1997 and the nine months ended September 27, 1997 and October 3, 1998, respectively. The put feature of this warrant will be eliminated upon the closing of this offering with the result that the warrant will be reclassified from long-term debt to common shareholders' equity, and there will be no further interest expense associated with the warrant. Until such time, the Company will be required to recognize any increases in the fair value of this warrant, which will be based on valuations as determined by a third party, as a non-cash interest expense and the amount of such non-cash interest expense may be substantial in the periods up to and including the period in which this offering is consummated. See "Pro Forma Consolidated Financial Statements."

A portion of the net proceeds from this offering is intended to be used to repay the Company's March 1997 $15.0 million debt financing. As a result of this repayment, the Company will be required to write off certain deferred assets associated with such indebtedness in the period in which such repayment occurs. This charge is estimated to be approximately $1.7 million at the time of such repayment and will be recorded as an extraordinary charge.

At October 3, 1998, the Company had net operating loss carryforwards for federal income tax purposes of approximately $1.6 million. Future earnings will result in the elimination of the Company's net operating loss carryforwards, increasing the Company's effective tax rate.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the Company's results of operations expressed as percentages of net sales. Percentage amounts may not total due to rounding.

	PERCENTAGE OF NET SALES				
	YEAR ENDED			NINE MONTHS ENDED	
	DEC. 30, 1995	DEC. 28, 1996	JAN. 3, 1998	SEPT. 27, 1997	OCT. 3, 1998
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	42.0	37.8	36.1	35.5	34.8
Gross margin	58.0	62.2	63.9	64.5	65.2
Operating expenses:					
Sales and marketing	49.8	53.7	53.8	54.9	53.3
General and administrative	14.9	12.2	8.9	9.2	7.8
Total operating expenses	64.7	65.9	62.7	64.1	61.0
Operating income (loss)	(6.7)	(3.7)	1.1	0.4	4.1
Other income (expense), net	0.0	0.1	(2.6)	(2.4)	(3.6)
Income (loss) before income taxes	(6.6)	(3.6)	(1.5)	(2.0)	0.5
Income tax expense	0.0	0.0	0.1	0.0	0.8
Net loss	(6.6)%	(3.6)%	(1.5)%	(2.0)%	(0.2)%

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 27, 1997 AND OCTOBER 3, 1998

NET SALES. Net sales increased 41.4% from $126.5 million for the first nine months of 1997 to $178.8 million for the first nine months of 1998, primarily due to an increase in unit sales. The components of the increase in net sales were (i) a $20.5 million increase associated with the opening of 54 new retail stores from September 27, 1997 through October 3, 1998, (ii) a $17.2 million increase associated with an increase of 26.9% in comparable store sales over the comparable period of the prior year, resulting primarily from the continuing maturation of stores, and (iii) a $13.6 million increase in direct marketing

sales. For a significant portion of the third quarter of 1997, due to a UPS work stoppage, UPS was unable to deliver the Company's products within acceptable time periods, causing delays in deliveries to customers and requiring the Company to use alternative carriers. Also, during this period, the Company converted its manufacturing and financial operations to a new integrated information system. These factors resulted in higher than normal customer returns and canceled orders, lower order volumes and substantially increased freight charges, which the Company estimates negatively impacted its operating income by approximately $3.9 million in the second half of 1997.

GROSS MARGIN. Gross margin increased from 64.5% for the first nine months of 1997 to 65.2% for the first nine months of 1998 primarily due to improved purchasing through volume discounts and better relationships with key suppliers and improved leverage of fixed manufacturing costs over higher unit volumes.

SALES AND MARKETING. Sales and marketing expenses increased 37.1% from $69.5 million in the first nine months of 1997 to $95.2 million in the first nine months of 1998, and decreased slightly as a percentage of net sales from 54.9% in the first nine months of 1997 to 53.3% in the first nine months of 1998. The increase in the dollar amount of sales and marketing expenses was primarily due to the opening of 54 new retail stores from September 27, 1997 through October 3, 1998, increased advertising expenditures to support the Company's growth, and higher commissions, percentage rents and freight expense related to the higher net sales.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 20.2% from $11.6 million in the first nine months of 1997 to $13.9 million in the first nine months of 1998, but decreased as a percentage of net sales from 9.2% in the first nine months of 1997 to 7.8% for the first nine months of 1998. The increase in the dollar amount of general and administrative expenses was primarily due to increased spending to provide infrastructure to support overall net sales growth. The decrease in general and administrative expenses as a percentage of net sales was primarily due to improved leverage of fixed costs over the increase in net sales.

OTHER INCOME (EXPENSE), NET. Other expense increased from $3.0 million in the first nine months of 1997 to $6.4 million in the first nine months of 1998 primarily due to an increase in interest expense associated with the Company's March 1997 $15.0 million debt issuance, offset in part by the interest income associated with the proceeds thereof. Other expense in the first nine months of 1998 included $5.2 million of non-cash interest expense relating to the change in the fair value of an outstanding put warrant compared with $1.9 million in the first nine months of 1997.

COMPARISON OF YEARS ENDED DECEMBER 28, 1996 AND JANUARY 3, 1998

NET SALES. Net sales increased 80.8% from $102.0 million in 1996 to $184.4 million in 1997 primarily due to an increase in unit sales. The components of the net sales increase were (i) a $36.6 million increase associated with the opening of 58 new retail stores in 1997, (ii) a $27.4 million increase in direct marketing sales, and (iii) a $16.1 million increase associated with an increase of 36.8% in comparable store sales over the prior year, resulting primarily from the continuing maturation of stores. For a significant portion of the third quarter of 1997, due to a UPS work stoppage, UPS was unable to deliver the Company's products within acceptable time periods, causing delays in deliveries to customers and requiring the Company to use alternative carriers. Also, during this period, the Company converted its manufacturing and financial operations to a new integrated information system. These factors resulted in higher than normal customer returns and canceled orders, lower order volumes and substantially increased freight charges, which the Company estimates negatively impacted its operating income by approximately $3.9 million in the second half of 1997.

GROSS MARGIN. Gross margin increased from 62.2% in 1996 to 63.9% in 1997 primarily due to improved purchasing through volume discounts and better relationships with key suppliers and improved leverage of fixed manufacturing costs over higher unit volumes.

SALES AND MARKETING. Sales and marketing expenses increased 81.0% from $54.8 million in 1996 to $99.2 million in 1997, and increased slightly as a percentage of net sales from 53.7% in 1996 to 53.8% in 1997. The increase in the dollar amount of sales and marketing expenses was primarily due to the opening of 58 new retail stores in 1997, higher commissions, percentage rents and freight expenses related to the higher level of net sales, increased advertising expenditures to support the Company's growth, and an increase in freight charges due to the UPS strike.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 32.5% from $12.5 million in 1996 to $16.5 million in 1997, but decreased as a percentage of net sales from 12.2% in 1996 to 8.9% in 1997. The increase in the dollar amount of general and administrative expenses was primarily due to increased infrastructure to support overall net sales growth. The decrease in general and administrative expenses as a percentage of net sales was primarily due to improved leverage of fixed costs over the increase in net sales.

OTHER INCOME (EXPENSE), NET. Other income (expense) decreased from $0.1 million of other income in 1996 to $4.8 million of other expense in 1997 primarily due to (i) the inclusion of $3.3 million of non-cash interest expense relating to the change in the fair value of an outstanding put warrant and (ii) interest expense associated with the Company's March 1997 $15.0 million debt issuance, offset in part by the interest income associated with the proceeds thereof.

COMPARISON OF YEARS ENDED DECEMBER 30, 1995 AND DECEMBER 28, 1996

NET SALES. Net sales increased 48.7% from $68.6 million in 1995 to $102.0 million in 1996, primarily due to an increase in unit sales. The components of the net sales increase were (i) a $21.5 million increase associated with the opening of 77 new retail stores in 1996, (ii) a $6.4 million increase in direct marketing sales, and (iii) a $4.7 million increase associated with an increase of 26.1% in comparable store sales over the prior year, resulting primarily from the continuing maturation of stores.

GROSS MARGIN. Gross margin increased from 58.0% in 1995 to 62.2% in 1996. The increase in gross margin was primarily due to improved purchasing through volume discounts and better relationships with key suppliers, the elimination of supplier problems that adversely affected the second half of 1995 (during which certain of the Company's former suppliers were unable to supply newly designed components in a timely manner) and improved leverage of fixed manufacturing costs over higher unit volumes.

SALES AND MARKETING. Sales and marketing expenses increased 60.4% from $34.2 million in 1995 to $54.8 million in 1996, and increased as a percentage of net sales from 49.8% in 1995 to 53.7% in 1996. The increase in the percentage of net sales was primarily due to the opening of 77 new retail stores in 1996, higher commissions, percentage rents and freight charges related to the higher level of net sales and advertising expenditures to support the Company's growth. The increase as a percentage of net sales was primarily due to advertising expenditures increasing at a rate greater than the increase in net sales, and retail store net sales (which have higher sales and marketing costs as a percentage of net sales) increasing at a rate greater than overall net sales.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 21.9% from $10.2 million in 1995 to $12.5 million in 1996, but decreased as a percentage of net sales from 14.9% in 1995 to 12.2% in 1996. The increase in the dollar amount of general and administrative expenses was primarily due to increased infrastructure to support overall net sales growth. The decrease as a percentage of net sales was primarily due to improved leverage of fixed costs over the increase in net sales.

SELECTED QUARTERLY RESULTS OF OPERATIONS

The following table sets forth selected unaudited quarterly results of operations for the Company's 11 fiscal quarters ended October 3, 1998. The unaudited quarterly information includes all normal recurring adjustments which management considers necessary for a fair presentation of the information shown. The results of operation for any quarter will not necessarily be indicative of the results that may be achieved for a full year or any future quarter.

	QUARTER ENDED						
	MAR. 30, 1996	JUNE 29, 1996	SEPT. 28, 1996	DEC. 28, 1996	MAR. 29, 1997	JUNE 28, 1997	SEPT. 27, 1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						
Net sales	$ 22,263	$ 24,775	$ 24,302	$ 30,688	$ 36,004	$ 46,074	$ 44,392
Cost of sales	8,757	9,516	9,460	10,788	12,839	16,157	15,890
Gross margin	13,506	15,259	14,842	19,900	23,165	29,917	28,502
Operating expenses:							
Sales and marketing	12,442	12,592	13,278	16,502	21,370	22,366	25,740
General and administrative	3,094	3,090	2,968	3,305	3,618	4,471	3,504
Total operating expenses	15,536	15,682	16,246	19,807	24,988	26,837	29,244
Operating income (loss)	(2,030)	(423)	(1,404)	93	(1,823)	3,080	(742)
Other income (expense), net	68	(14)	44	(19)	(70)	(1,784)	(1,169)
Income (loss) before income taxes	(1,962)	(437)	(1,360)	74	(1,893)	1,296	(1,911)
Income tax expense	--	--	--	--	12	--	4
Net income (loss)	$ (1,962)	$ (437)	$ (1,360)	$ 74	$ (1,905)	$ 1,296	$ (1,915)
Cumulative preferred dividends	$ (225)	$ (225)	$ (225)	$ (225)	$ (225)	$ (225)	$ (225)
Net income (loss) available to common shareholders	$ (2,187)	$ (662)	$ (1,585)	$ (151)	$ (2,130)	$ 1,071	$ (2,140)
Net income (loss) per share (1):							
Basic	$ (1.34)	$ (0.39)	$ (0.87)	$ (0.08)	$ (1.02)	$ 0.44	$ (0.88)
Diluted	$ (1.21)	$ (0.35)	$ (0.79)	$ (0.07)	$ (0.94)	$ 0.07	$ (0.82)
Weighted average common shares (1):							
Basic	1,634	1,710	1,829	1,841	2,081	2,410	2,437
Diluted	1,813	1,889	2,008	2,020	2,260	14,512	2,616
	PERCENTAGE OF NET SALES						
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	39.3	38.4	38.9	35.2	35.7	35.1	35.8
Gross margin	60.7	61.6	61.1	64.8	64.3	64.9	64.2
Operating expenses:							
Sales and marketing	55.9	50.8	54.6	53.8	59.4	48.5	58.0
General and administrative	13.9	12.5	12.2	10.8	10.0	9.7	7.9
Total operating expenses	69.8	63.3	66.9	64.5	69.4	58.2	65.9
Operating income (loss)	(9.1)	(1.7)	(5.8)	0.3	(5.1)	6.7	(1.7)
Other income (expense), net	0.3	(0.1)	0.2	(0.1)	(0.2)	(3.9)	(2.6)
Income (loss) before income taxes	(8.8)	(1.8)	(5.6)	0.2	(5.3)	2.8	(4.3)
Income tax expense	--	--	--	--	--	--	--
Net income (loss)	(8.8)%	(1.8)%	(5.6)%	0.2%	(5.3)%	2.8%	(4.3)%

	JAN. 3, 1998	APR. 4, 1998	JULY 4, 1998	OCT. 3, 1998
Net sales	$ 57,960	$ 58,671	$ 60,129	$ 60,035
Cost of sales	21,743	21,080	20,466	20,744
Gross margin	36,217	37,591	39,663	39,291
Operating expenses:				
Sales and marketing	29,742	32,260	31,695	31,276
General and administrative	4,912	4,294	4,302	5,336
Total operating expenses	34,654	36,554	35,997	36,612
Operating income (loss)	1,563	1,037	3,666	2,679
Other income (expense), net	(1,760)	(1,305)	(1,050)	(4,092)
Income (loss) before income taxes	(197)	(268)	2,616	(1,413)
Income tax expense	125	150	706	492
Net income (loss)	$ (322)	$ (418)	$ 1,910	$ (1,905)
Cumulative preferred dividends	$ (225)	$ (225)	$ (225)	$ (225)
Net income (loss) available to common				

shareholders	$ (547)	$ (643)	$ 1,685	$ (2,130)
Net income (loss) per share (1):				
Basic	$ (0.22)	$ (0.26)	$ 0.60	$ (0.72)
Diluted	$ (0.21)	$ (0.24)	$ 0.11	$ (0.68)
Weighted average common shares (1):				
Basic	2,475	2,478	2,820	2,938
Diluted	2,654	2,657	15,266	3,117
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	37.5	35.9	34.0	34.6
Gross margin	62.5	64.1	66.0	65.4
Operating expenses:				
Sales and marketing	51.3	55.0	52.7	52.1
General and administrative	8.5	7.3	7.2	8.9
Total operating expenses	59.8	62.3	59.9	61.0
Operating income (loss)	2.7	1.8	6.1	4.5
Other income (expense), net	(3.0)	(2.2)	(1.7)	(6.8)
Income (loss) before income taxes	(0.3)	(0.5)	4.4	(2.4)
Income tax expense	0.2	0.3	1.2	0.8
Net income (loss)	(0.6)%	(0.7)%	3.2%	(3.2)%

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(1) Shares of preferred stock are excluded from the calculation of net income (loss) per share for all periods for which the Company reported a net loss. Upon the consummation of this offering, all shares of preferred stock will be converted to shares of Common Stock and included in weighted average shares outstanding for purposes of computing net income (loss) per share.

The Company's quarterly operating results may fluctuate significantly as a result of a variety of factors, including increases or decreases in comparable store sales, the timing, amount and effectiveness of advertising expenditures, any changes in return rates, the timing of new store openings and related expenses, competitive factors, net sales contributed by new stores, any disruptions in third party delivery services and general economic conditions and consumer confidence. The Company's business is also subject to some seasonal influences, with heavier concentrations of sales during the fourth quarter holiday season due to higher mall traffic. During the third quarter of 1997, the UPS work stoppage resulted in delayed delivery of the Company's products, requiring that the Company use alternative carriers. Additionally, during that period, the Company converted its manufacturing and financial operations to a new integrated information system, which further contributed to delays in fulfilling customer orders. These factors resulted in higher than normal customer returns, canceled orders and substantially increased freight charges, which had a material adverse effect on the Company's operating results in the second half of 1997.

A substantial portion of the Company's operating expenses is related to sales and marketing expenses, including costs associated with opening new stores and advertising and marketing expenditures. The level of such spending cannot be adjusted quickly and is based, in significant part, on the Company's expectations of future customer inquiries and net sales. Furthermore, the Company has often realized a substantial portion of its net sales in the last month of a quarter, with such net sales frequently concentrated in the last weeks or days of a quarter, due in part to its promotional schedule. If there is a shortfall in expected net sales or in the conversion rate of customer inquiries, the Company may be unable to adjust its spending in a timely manner and the Company's business, financial condition and operating results may be materially adversely affected. The Company's results of operations for any quarter are not necessarily indicative of the results that may be achieved for a full year or any future quarter.

The Company expects to incur certain charges in the period in which this offering is consummated in connection with an outstanding put warrant and with the repayment of certain indebtedness with a portion of the net proceeds of this offering.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity has been the sale of equity securities and a $15.0 million senior subordinated debt financing transaction completed in March 1997. Primary uses of cash have been for the development and manufacturing of the Company's air bed product line, sales and marketing expenses, costs associated with the opening of new retail stores and manufacturing facilities and other required infrastructure and general corporate purposes, including working capital. The Company had working capital of approximately $3.6 million at October 3, 1998.

Net cash used in operating activities for 1995 was approximately $404,000 and consisted primarily of a net loss adjusted for non-cash expenses and increases in inventories and accounts receivable, partially offset by increases in accounts payable and accruals. Net cash provided by operating activities in 1996 was approximately $3.1 million and consisted primarily of increases in accounts payable and accruals, partially offset by a net loss adjusted for non-cash expenses and increases in inventories, accounts receivable and prepaid expenses. Net cash provided by operating activities in 1997 was approximately $7.3 million and consisted primarily of increases in accounts payable, accruals and net loss adjusted for non-cash expenses, partially offset by increases in accounts receivable, inventories and prepaid expenses. Net cash provided by operating activities in the first nine months of 1997 was approximately $5.5 million and consisted primarily of increases in accounts payable, accruals and net loss adjusted for non-cash expenses, partially offset by increases in inventories and prepaid expenses. Net cash provided by operating activities in the first nine months of 1998 was approximately $2.6 million and consisted primarily of net loss adjusted for non-cash expenses partially offset by increases in accounts receivable and inventories.

Beginning in May 1997, the Company began offering an unsecured revolving credit arrangement to finance purchases through a third party bank. Amounts owed to the bank by the Company's customers

aggregated $65.8 million at October 3, 1998. The bank's current commitment extends to a maximum of $75.0 million of receivables outstanding. The Company expects to increase the amount of this commitment before the end of 1998. In connection with all purchases financed under these arrangements, the bank pays the Company an amount equal to the total amount of purchases net of promotional related discounts and less amounts retained for returned products and limited recourse on bad debts. Pursuant to its agreement with the Company, the bank had retained $1.9 million, $3.9 million and $10.1 million as of September 27, 1997, January 3, 1998 and October 3, 1998, respectively.

Net cash used in investing activities was approximately $5.6 million, $10.1 million, $10.7 million, $9.0 million and $6.7 million in the years 1995, 1996, 1997 and the first nine months of 1997 and the first nine months of 1998, respectively. Investing activities consisted of purchases of property and equipment for new retail stores in all periods as well as for a new manufacturing and distribution facility and the conversion to a new information system in 1997.

Net cash provided by financing activities for 1995 was approximately $9.1 million and consisted primarily of proceeds from a preferred stock issuance. Net cash provided by financing activities for 1996, 1997 and the first nine months of 1997 was approximately $2.6 million, $13.6 million and $13.8 million, respectively, and consisted primarily of proceeds from debt issuances, partially offset by debt repayments. Net cash provided by financing activities for the first nine months of 1998 was approximately $931,000 and consisted primarily of proceeds from a Common Stock issuance, partially offset by debt repayments.

At October 3, 1998, the Company had 244 retail stores (including four leased departments) and plans to open approximately 12 additional retail stores and 10 additional leased departments in Bed Bath & Beyond stores in the remainder of 1998 and approximately 50 retail stores in 1999. In addition, the Company expects to expand its leased department concept within larger retail stores in 1999. Management expects that new stores will be leased on terms generally comparable to those of existing store leases. In addition, the Company plans to open a third manufacturing and distribution facility in Salt Lake City during the first half of 1999. The Company anticipates that capital expenditures in 1998 and 1999 will be approximately $8.2 million and $15.0 million, respectively, based on currently planned store openings, the planned new manufacturing and distribution facility and the central office facilities and systems necessary to support such additional stores.

The Company believes cash generated from operations will be sufficient to satisfy its anticipated working capital needs and that capital expenditure requirements through at least the end of 1999 will be funded primarily by proceeds from the offering. The Company believes cash generated from operations and proceeds from the offering remaining at the end of 1999 will be used to meet long-term liquidity needs, although additional financing may be required.

IMPACT OF YEAR 2000

STATE OF READINESS. Beginning in early 1996, the Company included certain Year 2000 initiatives and remediation plans in its broader information systems strategic plan. At that time, the Company also retained an independent consultant to assess the adequacy of the Company's Year 2000 initiatives and remediation plans. Since that time, all of the Company's essential information technology ("IT") systems have been inventoried and remediation plans for any Year 2000 issues have been implemented. The Company's remediation plans included the development of Year 2000 compliant applications for the Company's order entry, customer service and point of sale systems in Fall 1996. In the third quarter of 1997, the Company purchased and implemented an enterprise information system used in manufacturing operations, material planning, inventory management, order processing, financial management and human resources applications, which system will be upgraded to be Year 2000 compliant in the first half of 1999. The Company purchased Year 2000 compliant upgrades to the Company's payroll application in 1997 and the Company's telephone system in 1998. The Company has purchased Year 2000 compliant upgrades for its software applications for customer inquiries and for processing and tracking warranty claims and returns. The Company anticipates these upgrades will be completed in the first half of 1999. With the

implementation of these applications and upgrades, the Company expects that all of its core applications and IT systems will be Year 2000 compliant by the end of the second quarter of 1999.

In August 1998, the Company formed a Year 2000 project team ("Year 2000 Project Team") to identify and address Year 2000 compliance matters, including the Company's significant non-IT systems which are comprised of the embedded technology used in the Company's buildings, plant, equipment and other infrastructure. The Year 2000 Project Team is currently in the process of inventorying all material Year 2000 issues in the Company's non-IT systems. Based on a general assessment of the Company's significant non-IT systems performed prior to the formation of the Year 2000 Project Team, the Company expects that remedial action for all of its non-IT systems will be completed by the end of the second quarter of 1999.

During the first quarter of 1998, the Company initiated discussions with its significant suppliers regarding their plans to remediate Year 2000 issues. The Company sent each of its significant suppliers a questionnaire inquiring as to the magnitude of their Year 2000 issues and the status of their readiness. The Company has received assurances from a majority of its suppliers that such third parties will become Year 2000 compliant in a timely manner. The Company has not received responses from all of the third parties with whom it does business. In addition to the questionnaires, the Company has established a supplier certification program under which the Company's suppliers must meet rigorous

standards relating to quality, service, the ability to deliver materials on a timely basis and Year 2000 compliance. To date, nine of the Company's key suppliers were certified and other authorized suppliers are in the process of seeking certification. Each of these suppliers, including the Company's Eastern European supplier of air chambers, have notified the Company that they are or will be Year 2000 compliant during 1999.

In addition to suppliers, the Company also relies upon governmental agencies, utility companies, telecommunication service companies and other service providers outside of the Company's control. There can be no assurance that such governmental agencies or other third parties will not suffer a Year 2000 business disruption that could have a material adverse effect on the Company's business, financial condition and operating results.

COSTS TO ADDRESS THE YEAR 2000 ISSUE. The Company estimates it has incurred, through October 3, 1998, approximately $165,000 to address Year 2000 issues. The Company estimates that by mid-1999 it will incur an additional $100,000 to complete its remediation plans required for its IT systems, which includes systems software costs and consulting fees. The Company does not have an estimate on Year 2000 remediation costs that may be required for its non-IT systems, but the Company believes that such costs will not have a material adverse effect on the Company's business, financial condition and operating results.

RISKS PRESENTED BY THE YEAR 2000 ISSUE. As the process of inventorying non-IT systems proceeds, the Company may identify systems that present a Year 2000 risk. In addition, if any third parties who provide goods or services essential to the Company's business activities fail to appropriately address their Year 2000 issues, such failure could have a material adverse effect on the Company's business, financial condition and operating results. For example, a Year 2000 related disruption on the part of the financial institutions which process the Company's credit card sales would have a material adverse effect on the Company's business, financial condition and operating results.

CONTINGENCY PLANS. The Company's Year 2000 Project Team's initiatives include the development of contingency plans in the event the Company has not completed all of its remediation plans in a timely manner. In addition, the Year 2000 Project Team is in the process of developing contingency plans in the event that any third parties who provide goods or services essential to the Company's business fail to appropriately address their Year 2000 issues. The Year 2000 Project Team expects to conclude the development of these contingency plans by the end of the second quarter of 1999.

BUSINESS

OVERVIEW

Select Comfort, "The Air Bed Company," is the leading vertically integrated manufacturer, specialty retailer and direct marketer of premium quality, premium priced, innovative air beds and sleep-related products. Select Comfort believes it is revolutionizing the mattress industry by offering a differentiated product through a variety of service-oriented distribution channels. Select Comfort's products have been clinically proven to address broad-based consumer sleep problems through the Company's proprietary air bed technology and the ability to customize the firmness on each side of the mattress at the touch of a button. Extensive testing has confirmed that Select Comfort's proprietary technology allows its air beds to provide greater comfort and support by more naturally contouring to the body, thereby providing better spinal alignment, reduced pressure points, greater relief of lower back pain, greater overall comfort and better quality sleep in comparison with traditional mattress products. The Company's air beds are marketed exclusively under the Select Comfort brand. The Company seeks to build awareness of its air beds and brand as being synonymous with a better night's sleep.

Unlike traditional mattress manufacturers, the Company sells its products directly to consumers through three complementary, service-oriented distribution channels, including Company-operated retail stores and leased departments within larger retail stores, direct marketing operations and road show events. Each of these channels is operated by knowledgeable Company employees trained in the

latest innovations in sleep technology and the benefits and features of the Select Comfort product line. The Company's retail operations included 244 stores in 43 states, including four leased departments (three in Bed Bath & Beyond stores), at October 3, 1998. The Company plans to open approximately 12 additional retail stores and 10 additional leased departments in Bed Bath & Beyond stores in the remainder of 1998 and approximately 50 retail stores in 1999. In addition, the Company expects to expand its leased department concept in 1999. The Company's direct marketing operations include approximately 90 sales professionals responsible for servicing customer inquiries and making outbound calls. Road show events are held in selected markets where the Company has high inquiry levels but does not have a retail presence, as well as at home shows and consumer product shows, state fairs and similar events. The Company advertises through targeted print, radio and television media which generate customer inquiries that are converted into sales through each of the Company's three distribution channels. The Company's net sales have grown from $14.0 million in 1993 to $184.4 million in 1997, and its comparable store sales have increased 26.1%, 36.8% and 26.9% for 1996, 1997 and the nine months ended October 3, 1998, respectively.

INDUSTRY BACKGROUND

The U.S. mattress market is large and dominated by four large manufacturers primarily focused on traditional innerspring mattresses. According to the International Sleep Products Association ("ISPA"), 35.3 million mattress and foundation units were sold in the U.S. in 1997, generating approximately $3.6 billion in wholesale sales, which the Company believes represented approximately $6.7 billion in retail sales. ISPA estimates that innerspring mattresses accounted for approximately 90% of total U.S. mattress sales in 1997 and, according to FURNITURE/TODAY, the four largest manufacturers (Sealy, Serta, Simmons and Spring Air) accounted for nearly 62% of wholesale dollar sales. The balance of the mattress market is served by over 700 manufacturers, primarily operating on a regional basis. The traditional mattress distribution channels and the estimated market shares in 1997, according to FURNITURE/TODAY, were furniture stores (42%), specialty bedding stores (24%), department stores (11%), national chains (8%), wholesale clubs (6%) and others, including telephone and electronic shopping channels (9%). Between 1993 and 1997, specialty bedding stores increased their share of the market from 19% to 24%.

The Company believes there is increasing demand for products designed to provide better quality sleep and promote overall wellness and that the traditional mattress industry has not been responsive to

these consumer preferences. The National Sleep Foundation estimates that approximately 50% of U.S. consumers have suffered from sleep deprivation or poor quality sleep from a variety of causes, including physical causes such as spinal misalignment, pressure points or lower back pain. In addition, independent researchers have reported that approximately 80% of all adults will experience lower back pain at some point in their lives, with most of these cases associated with spinal misalignment and aging. The Company believes that the sleep surface is an important factor in sleep quality, and clinical research verifies that an improved sleep surface can contribute to better quality sleep and greater relief of lower back pain.

The Company believes that the market for mattresses and related accessories has been changing as consumers are purchasing larger, higher quality and more expensive mattresses, as well as more innovative and higher quality accessories. Factors influencing this trend are the increasing awareness among consumers of the importance of sleep as a component of health and the aging and increasing affluence of the baby boom generation. The Company believes that consumers are increasingly health conscious and motivated to purchase higher quality products for the home.

THE SELECT COMFORT SOLUTION

Select Comfort believes it is revolutionizing the mattress industry by offering a clinically proven, differentiated product through a variety of service-oriented distribution channels. The Company's products address broad-based consumer sleep problems, resulting in a better night's sleep. The Company's proprietary technology allows its air beds to more naturally contour to the body, thereby generally providing better spinal alignment, reduced pressure points, greater relief of lower back pain, greater overall comfort and better quality sleep in comparison with traditional mattress products. A

firmness control system allows customers to independently customize the firmness on each side of the Select Comfort air bed to their optimal level of comfort and support. Unlike traditional mattress manufacturers, the Company sells its products directly to consumers through three complementary distribution channels. These channels allow the Company to interact directly with consumers to enhance customer satisfaction and build brand loyalty. These channels also provide consumers with greater accessibility and convenience in purchasing Select Comfort products.

Select Comfort has commissioned a number of independent clinical studies which indicate that Select Comfort air beds provide consumers with substantial benefits over traditional innerspring mattresses. A recent commissioned study conducted at the Stanford University Sleep Research Center indicated that participants using Select Comfort air beds fell asleep faster, experienced fewer brainwave sleep disturbances and spent less time in the lighter sleep stages and a greater percentage of overall sleep in deeper stages of sleep, including rapid eye movement (REM) sleep, in comparison to alternative mattress products. Another commissioned study conducted at the University of Memphis confirmed that spinal misalignments were generally lower on Select Comfort air beds in comparison with both a leading innerspring mattress and a leading waterbed. The Company has also performed extensive testing which confirms that Select Comfort air beds reduce pressure points in comparison with innerspring mattresses and waterbeds. Three additional commissioned studies on the relationship between lower back pain, sleep quality and the sleep surface have found, on average, that 95% of lower back pain sufferers reported reduced pain, 88% experienced improved sleep quality and 80% experienced increased physical functioning when sleeping on a Select Comfort air bed in comparison with an innerspring mattress. These findings support the Company's market research and customer testimonials which indicate that sleeping on a Select Comfort air bed results in a significant reduction in medical visits and fewer days of work lost due to back pain.

The Company has been granted 16 U.S. patents, has applications pending for six U.S. patents and maintains an active research and development department. Select Comfort plans to continue its research of sleep technology, testing of the consumer benefits from sleeping on its air beds and development of new products and product improvements designed to provide a better night's sleep.

BUSINESS AND GROWTH STRATEGY

The Company is the leading vertically integrated manufacturer, specialty retailer and direct marketer of innovative air beds and sleep-related products. Select Comfort intends to leverage its position by increasing awareness of air bed technology and further establishing the Select Comfort brand to be synonymous with a better night's sleep, premium quality products and superior customer service. Key elements of the Company's business strategy are set forth below.

PROVIDE A SUPERIOR PRODUCT. Select Comfort's products differ from traditional mattresses by addressing broad-based consumer sleep problems through the greater comfort and support of sleeping on air and through the ability to customize the firmness on each side of the mattress at the touch of a button. Extensive testing has confirmed that Select Comfort air beds generally provide better spinal alignment, reduced pressure points, greater relief of lower back pain, greater overall comfort and better quality sleep in comparison with traditional mattress products. The Company is committed to the continuing development of new products to enhance the sleep experience and has recently introduced the Imperial Series at the top of the product line, quieter firmness control systems, remote control gauges with digital settings, finer fabrics and covers, new generations of foams and foundation systems and enhanced border walls.

EDUCATE CONSUMERS AND PROVIDE SUPERIOR CUSTOMER SERVICE. Traditionally, the mattress industry has relied heavily on promotional pricing and has not been characterized by high levels of customer service. Since consumer education and customer service are critical to convey the features and benefits of Select Comfort's innovative air beds and to achieve high levels of customer acceptance and satisfaction, the Company seeks to provide a more friendly and informative sales environment. In order to ensure superior customer satisfaction, retail, direct marketing and road show sales professionals receive extensive training in

sleep technology and the Company's proprietary technology and products, including features and benefits, assembly and service procedures and policies. The Company also maintains a customer service department of approximately 50 employees who receive similar training. As part of its continuous efforts to maximize convenience for consumers, the Company offers a 90 Night Trial, and has recently begun testing in-home assembly services in selected markets.

INCREASE PRODUCT AWARENESS AND BRAND RECOGNITION. The Company believes that the single most important factor in increasing sales is increasing consumer awareness of the features and benefits of Select Comfort air beds. The Company's highest brand awareness and market share is in Minneapolis, where it has its largest advertising budget and largest number of retail stores. The Company plans to increase product awareness and brand recognition nationwide through continued investment in advertising and expansion of its retail store base. The Company plans to expand its retail store base in both existing and new markets, and through a combination of mall-based locations, leased departments and, to a lesser extent, alternative locations such as strip shopping centers.

LEVERAGE COMPLEMENTARY DISTRIBUTION CHANNELS. The Company distributes directly to customers through Company-operated retail stores, direct marketing operations and road show events. The Company's control over its three complementary distribution channels provides significant competitive advantages, including the ability to (i) leverage the Select Comfort brand name to generate inquiries and convert inquiries to sales, (ii) interact directly with consumers to enhance customer satisfaction and build brand loyalty, (iii) train sales professionals regarding the Company's products and to provide superior customer service, (iv) utilize data from its direct marketing operations to support retail and road show site selection, new store openings and road show events, and (v) leverage advertising and marketing programs across multiple markets and distribution channels. In addition, the Company's complementary distribution channels provide customers with greater accessibility and convenience in the purchase of its products.

CAPITALIZE ON VERTICALLY INTEGRATED OPERATIONS. The Company maintains control over all phases of its business, including the design, manufacturing, marketing, distribution and service of its air beds. This allows the Company to maintain rigorous product quality standards, establish coordinated and integrated

sales and marketing efforts, carefully manage the presentation and pricing of its products and focus on customer satisfaction and service. As a result of its direct relationships with consumers, the Company is better positioned to understand and respond to consumer needs and market trends.

PURSUE ADDITIONAL GROWTH OPPORTUNITIES. The Company has begun testing the offering of in-home assembly services in selected markets through regional and national providers in order to increase overall sales and enhance customer satisfaction by providing greater convenience to the customer. The Company also plans to introduce product enhancements and new products such as sofabeds, adjustable frames, space saver foundations with storage compartments and sound vibration mattresses providing relaxation and therapeutic effects. The Company is also exploring opportunities to market the Company's products through health care providers, including chiropractors and health maintenance organizations.

PRODUCTS

Select Comfort provides a line of high quality air beds, foundations and sleep accessories. The current line of products represents over 10 years of research and development by the Company designed to revolutionize the way people sleep.

AIR BEDS

Select Comfort air beds have been engineered to more naturally contour to the body, thereby generally providing better spinal alignment, reduced pressure points, greater relief of lower back pain, greater overall comfort and better quality sleep in comparison with traditional mattress products. Every Select Comfort air bed has a patented air chamber as its functioning core and comes with a firmness control system ("FCS") that allows the customer to easily and instantly customize the firmness of the mattress at the touch of a button. All

of the Company's air beds, except twin size mattresses, are available with independent air chambers for each side of the mattress, allowing customized firmness for each sleep partner. The Company's Imperial and Ultra Series of air beds feature a wireless remote control with a digital display of the user's "Sleep Number," which reflects the level of firmness and allows the customer to more easily adjust and readjust the firmness level to the customer's ideal Sleep Number based on personal preference.

Select Comfort air beds feature either a traditional cover or a pillowtop style cover that provides extra cushioning. The covers are constructed with sanitized and hypoallergenic Damask ticking made from blends of polyester/polypropylene or cotton/rayon, or from 100% rayon. Select Comfort air beds are manufactured in a broad array of sizes and styles, including all standard bed sizes and a waterbed replacement size that fits into a customer's existing waterbed frame. The Company restaged its product line in the spring of 1998 to include new cover designs as well as the addition of a new zoned foam in its pillowtop models. This restaging also included a newly redesigned, "whisper quiet" FCS for the Imperial and Ultra Series and all new marketing materials.

The Company's air beds can be assembled by customers in a simple process requiring no tools and can be moved more easily than a traditional mattress and box spring. Furthermore, because air is the primary support material of the mattress, Select Comfort air beds do not lose their shape or support over time like a traditional mattress and box spring. Each air bed is accompanied with instructional product brochures and easy to follow assembly instructions, is certified by Underwriter's Laboratories and is backed by a 20-year limited warranty and Select Comfort's 90 Night Trial and Better Night's Sleep Guarantee. The following paragraphs describe the Select Comfort product line.

CLASSIC SERIES. The Classic Series is the Company's entry level product that is competitively priced with a broad array of mattress alternatives. The Classic Series targets consumers seeking better support and comfort at the most affordable price. The FCS for the Classic Series is equipped with two individual, wired hand controls to instantly customize firmness. The Classic Series mattress is 7 1/2 inches thick and features a traditional cover.

ELITE SERIES. In comparison with the Classic Series, the Elite Series features a quieter and more technologically advanced FCS with two individual, ergonomically designed, wired hand controls for instant firmness adjustment. The Elite Series mattress is 9 1/2 inches thick in the pillowtop model and features more padding for greater comfort and foam sidewalls for greater stability. The Elite Series is also available with a traditional cover.

ULTRA SERIES. The Ultra Series is the Company's most popular air bed, featuring a new "whisper quiet" FCS with a single wireless, ergonomically designed, hand control with a lighted digital display of each user's Sleep Number for precisely customized firmness. This lighted digital display feature allows the user to more easily adjust and readjust the firmness level to the user's ideal Sleep Number based on personal preference. The Ultra Series mattress is 11 1/2 inches thick in the pillowtop model that features a Belgian Damask cover. The Ultra Series is also available with a traditional cover.

IMPERIAL SERIES. The Imperial Series is the Company's new premium air bed, incorporating the Company's most advanced technology. The Imperial Series mattress is 13 1/2 inches thick and has a unique multi-layer foam system for the utmost in comfort and support. Available in pillowtop style only, the cover features an ornate Belgian Damask ticking with a 1930s vintage antique pattern and is filled with a blend of highly resilient fibrefill and cashmere. Like the Ultra Series, the Imperial comes with the new "whisper quiet" FCS with a single wireless, ergonomically designed, hand control with a lighted digital display of each user's Sleep Number.

The current retail prices for the Company's air beds (excluding foundations) are as follows:

	TWIN	FULL/ DOUBLE	QUEEN	KING
Classic				
Traditional	$ 299	$ 459	$ 549	$ 749

Elite				
Pillowtop	$ 599	$ 849	$ 949	$ 1,199
Traditional	$ 449	$ 699	$ 799	$ 1,049
Ultra				
Pillowtop	$ 899	$ 1,149	$ 1,249	$ 1,499
Traditional	$ 749	$ 999	$ 1,099	$ 1,349
Imperial				
Pillowtop	$ 1,799	N/A	$ 2,249	$ 2,599

FOUNDATIONS

Select Comfort also offers matching foundations that enhance the performance of its mattresses. A substantial majority of the Company's customers purchase sets, which include a mattress and foundation. The Company's foundations are assembled by the customer or by an assembly service provider from rigid plastic components and provide solid, uniform support beneath the mattress to ensure that the air bed provides the intended support. Due to their rigid plastic component structure, Select Comfort foundations, unlike traditional box springs, do not lose their shape or support over time and are stronger, lighter and more easily moved. The foundations for the Imperial, Ultra and Elite Series also feature a padded top for enhanced comfort. Retail prices for foundations currently range from $199 to $399.

ACCESSORY PRODUCTS

Select Comfort also offers a line of accessory products, including high quality mattress pads with zoned heating and specialty pillows, all of which are hypoallergenic and designed to provide comfort and better quality sleep. The Company's specialty pillows include a neck pillow designed to provide neck support and comfort, a silent sleeper contoured pillow designed to reduce snoring, a memory foam pillow

that molds to the shape of the head and neck, a natural down pillow for superior comfort and a side sleeper pillow. All of these specialty products are manufactured by third parties and marketed under the Select Comfort brand name. The Company also sells a line of bed frames manufactured by a third party.

SALES GENERATION

Select Comfort's vertically integrated operations and control over its three separate but complementary distribution channels enable it to develop and maintain direct customer relationships, as well as leverage its advertising dollars. The Company's sales generation is driven by targeted print, radio and television media which generate customer inquiries that historically were pursued primarily through the Company's direct marketing operations. As the Company's retail store base has expanded, the Company believes it has been able to further leverage its direct marketing infrastructure and improve the process of converting customer inquiries into sales. The Company is continually assessing opportunities to further coordinate and leverage its three distribution channels to direct potential customers to the channel which best suits their needs and to increase conversion ratios.

RETAIL STORES

Since the Company's first retail stores were opened in 1992, an increasing percentage of the Company's net sales has occurred at the Company's retail stores, and retail store sales now account for a majority of the Company's net sales. At October 3, 1998, the Company had 244 stores in 43 states, including four leased departments (three in Bed Bath & Beyond stores), and plans to open approximately 12 additional retail stores and 10 additional leased departments in Bed Bath & Beyond stores in the remainder of 1998 and approximately 50 retail stores in 1999. The Company is currently in negotiations with Bed Bath & Beyond with regard to the 10 additional leased departments. The Company expects to expand its leased department concept in 1999, with the magnitude of the expansion depending on the performance of the leased departments opened in 1998. The expansion of the leased department concept may involve additional Bed Bath & Beyond locations or locations within other retailers. The Company does not currently have any commitment from Bed Bath & Beyond or any other retailer regarding the opening of any leased departments in 1999.

SELECT COMFORT RETAIL STORE LOCATIONS

STORE ENVIRONMENT. Select Comfort seeks to offer a unique and innovative store environment that attracts consumers, showcases the Company's products and encourages trial of its air beds. The Company's retail store design is intended to convey a sense of innovation, sophistication and quality that reinforces the Company's brand image and reputation as sleep experts. The Company's current store design consists of graphically intriguing "dream walls" against a backdrop of clouds designed to invite consumers to try the Company's innovative products. The Company's retail stores are principally showrooms, averaging approximately 900 square feet, with several display models from the Company's line of air beds and a full display of the Company's branded accessories. The retail stores typically maintain an inventory of accessory products, but little or no inventory of air beds. The Company's leased departments, at approximately 240 square feet, are significantly smaller than its retail stores.

The Company's sales professionals play an important role in creating an inviting and informative retail environment. These professionals receive extensive training regarding the features and benefits of the Company's proprietary technology and products as well as on the overall importance of sleep quality. This enables them to more effectively introduce consumers to the Company's innovative air beds, emphasize the features and benefits that distinguish Select Comfort air beds from traditional mattresses, determine the consumers' needs, encourage consumers to experience the comfort and support of the air beds and answer questions regarding the Company's products.

SITE SELECTION. The Company intends to continue to open retail stores in both existing markets and new markets. New geographic markets that the Company expects to enter in 1999 include Providence, Rhode Island, Burlington, Vermont, Montgomery, Alabama, Savannah, Georgia, Augusta, Georgia and Sarasota, Florida. In selecting new store sites, Select Comfort generally seeks high-traffic mall locations of approximately 800 to 1,200 square feet within regional malls in major metropolitan areas. The Company conducts extensive analyses of potential store sites and bases its selection on a number of factors, including the location within the mall, demographics of the trade area, the specifications of the mall (including size, age, sales per square foot and the location of the nearest competitive mall), the perceived strength of the mall's anchor stores, the performance of other specialty retail tenants in the mall and the number of direct marketing inquiries received from the area surrounding the mall. Clustering of retail stores within a metropolitan retail market is also a key consideration in order to leverage the Company's advertising.

The Company is also evaluating alternative locations for its retail stores, such as strip shopping centers. The Company currently has two retail stores in a strip shopping center and is evaluating the economics of such locations. If such locations prove to be viable, future strip shopping center locations will be selected on the basis of demographics in the market, the perceived quality of the location within the market, the number of direct marketing inquiries received from the area and the extent to which such a location would contribute to the clustering of the Company's retail stores within an advertising market. The Company expects that the retail stores in which its additional leased departments will be opened will be in a variety of locations, including malls and strip shopping centers.

NEW STORE ECONOMICS. The Company's 142 stores that were open for all of 1997 generated average net sales of approximately $576,000 and average net sales per square foot of approximately $666 during 1997. The Company's newer stores typically generate lower sales volumes than its more mature stores, although the average first year sales of each new class of stores by year of opening has increased each year since 1992. The Company's average cost for leasehold improvements, furniture and fixtures for stores opened in 1997 was approximately $101,000 per store. The Company's retail stores have an average payback period of approximately two years. Pre-opening costs are expensed as incurred and average under $10,000 per store. Working capital requirements are not

significant since the Company typically maintains relatively little inventory at the retail stores.

MARKETING AND ADVERTISING. The Company has supported new store openings with local print and radio advertisements and mailings to direct response inquiries in the market. The Company also uses local radio personalities and newspaper advertising in certain of the markets where it has multiple retail stores.

Local radio personalities have been particularly effective in driving inquiries with personal endorsements that build product credibility. The Company also uses local radio and print advertisements and promotional offers during high mall traffic periods, such as three-day holiday weekends, and in-store events including live remote broadcasts and promotional contests. The Company also relies on its unique store design and word-of-mouth referrals to attract potential customers. To encourage word-of-mouth referrals and build brand loyalty, new customers are enrolled in the "Comfort Club," which entitles members to receive $50 for each referral of a customer that puchases an airbed, as well as special promotional offers.

MANAGEMENT AND EMPLOYEES. The Company's stores are currently organized into four regional areas and 30 geographic districts, with approximately eight stores in each district. Each regional sales manager oversees approximately eight geographic districts. The regional sales managers average over 10 years of multi-unit retail experience. Each district has a district sales manager who is responsible for the sales and operations and who reports to a regional sales manager. The district sales managers frequently visit stores to review merchandise presentation, sales force product knowledge, financial performance and compliance with operating standards. The district sales managers average over six years of experience as an area or district manager in specialty retailing. The typical staff of a Select Comfort store consists of one store manager and two full-time sales professionals. In order to maintain high operating standards, the Company recruits store managers who typically have one to four years of experience as a store manager in specialty retailing. The sales professionals devote substantially all of their efforts to sales and customer service, which includes helping customers and generating and responding to inquiries. In addition, to promote consumer education, ensure customer satisfaction and generate referrals, the sales professionals place follow-up calls to customers who have made recent purchases. Since minimal inventory is maintained at the retail stores, store managers and sales professionals have relatively few inventory management, store merchandising and related administrative duties.

TRAINING AND COMPENSATION. All store personnel receive comprehensive on-site training on the Company's technology and sleep expertise, the features and benefits of the Company's air beds, sales and customer service techniques and operating policies and guidelines. Initial training programs are reinforced through detailed product and operating manuals and periodic performance appraisals. All store sales professionals receive base compensation and are entitled to commissions based on individual and store-wide performance. Regional and district sales managers are eligible to receive, in addition to their base compensation, incentive compensation for the achievement of performance objectives by the stores within their respective regions and districts.

DIRECT MARKETING OPERATIONS

Many consumers' initial exposure to the Select Comfort air bed is through the Company's direct marketing operations. Typically, an interested consumer will respond to one of the Company's advertisements by calling the Company's toll-free number. On this call, one of the direct marketing sales professionals captures information from the consumer, begins the consumer education process, takes orders, or, if appropriate, directs the consumer to the Company's other distribution channels. The telemarketing operations are conducted by knowledgeable and well-trained sales professionals, including a group of over 50 sales professionals who field incoming direct marketing inquiries, and over 30 sales professionals who make outbound calls to consumers who have previously contacted the Company. The direct marketing operations also include a database marketing department that is responsible for mailings of product and promotional information to direct response inquiries.

INQUIRY GENERATION. In the direct marketing channel, the Company's

advertising message is communicated through targeted print, radio, infomercials and television advertisements, as well as through product brochures, videos and other product and promotional materials mailed in response to consumer inquiries at various intervals. As the Company's advertising budget has expanded over the last few years, the direct marketing channel has relied more heavily on nationally syndicated radio personalities, such as

Paul Harvey and Rush Limbaugh, and more recently on television commercials and infomercials. The Company's direct marketing operations continually monitor the effectiveness and efficiency of the Company's advertising through tracking the cost per inquiry ("CPI") and cost per order ("CPO") of its advertising, using focus groups to evaluate the effectiveness of its advertising messages and using sophisticated media buying techniques.

INQUIRY CONVERSION AND INTEGRATION WITH OTHER DISTRIBUTION CHANNELS. From each inquiry, the Company's sales professionals strive to capture a variety of information, including name, address, telephone number, the current mattress product used, sleep habits and health issues that may be adversely affected by poor quality sleep. The Company maintains a database of information on approximately 3.7 million inquiries, including customers who have purchased an air bed from the Company, from which the direct marketing channel is able to take orders, or, if appropriate, direct the consumer to the Company's other distribution channels. The database also provides valuable marketing information. The Company's telemarketing sales professionals begin the consumer education process during the initial call from the consumer. Subsequent to the initial inquiry, the Company's database marketing department contacts the consumer on a scheduled format through mailings of printed product and educational information, a video on the features and benefits of Select Comfort air beds, outbound telephone calls and periodic promotional offerings.

The direct marketing operations also support the Company's retail and road show operations through referrals, as well as mailings to direct marketing inquiries in selected markets in advance of retail store openings and road shows. As the Company's base of retail stores has expanded, the direct marketing sales professionals have increasingly been able to refer direct marketing inquiries to a convenient retail store location, improving the process of converting inquiries into sales and providing the consumer with a choice of service venues. The Company intends to continue to pursue opportunities to leverage its direct marketing infrastructure and expertise to enhance its retail and road show distribution channels.

TRAINING AND COMPENSATION. The Company's direct marketing sales professionals receive ongoing training and must pass various tests to move through the four sales professional levels, each with a separate pay scale. Direct marketing sales professionals are paid base compensation plus commissions.

ROAD SHOW EVENTS

The Company's third distribution channel is road show events in selected markets where the Company typically does not have a retail presence, as well as at home shows and consumer product shows, state fairs and similar events. Select Comfort sales professionals, supported by local print and radio advertising and advance mailings to direct marketing inquiries, travel to various cities to demonstrate the Company's products in temporary showrooms or in booths at trade shows and educate consumers about the benefits of Select Comfort's air beds. The Company uses inquiries generated from the direct marketing channel to determine road show sites and typically will have approximately 10 road show events, ranging from three days to two weeks in duration, in process at any given time. The Company has found this distribution channel to be very effective in converting direct response customers who want to see the product before purchasing, but do not live close to a retail store location. The road show events also provide the Company with valuable information for use in feasibility analyses for retail store sites. The road show sales professionals receive both base and incentive compensation.

MARKETING AND ADVERTISING

The primary objective of the Company's marketing and advertising strategy is to create awareness of the features and benefits of Select Comfort air beds and to build recognition of the Select Comfort brand as the leader in innovative air

beds, sleep expertise, superior quality and excellent customer service. The Company's corporate marketing department is responsible for implementing a coordinated, integrated and consistent marketing and advertising strategy across the Company's three complementary distribution

channels. The Company continues to spend the majority of its advertising budget on direct marketing, which also drives traffic to the expanding base of retail stores. As the base of retail stores continues to grow, the Company plans to dedicate more of its advertising budget to the retail stores.

In 1997, the Company spent approximately $28.3 million on advertising expenses. The majority of the Company's advertising budget is devoted to print and long and short-form television advertising, with the balance primarily devoted to radio advertising with well-known national personalities, such as Paul Harvey and Rush Limbaugh, as well as local radio personalities in selected retail markets. The Company also intends to continue to pursue various alternative channels, such as catalogs, the Internet and targeted marketing programs. Management believes that additional demand for the Company's products will be created by increased consumer awareness of the benefits of Select Comfort air beds.

CONSUMER EDUCATION AND CUSTOMER SERVICE

Select Comfort is committed to achieving its goal of world class customer satisfaction and service. The Company intends to achieve this goal through a variety of means designed to (i) educate consumers on the benefits of Select Comfort products, (ii) deliver superior quality products, (iii) maximize the Company's direct relationship with consumers, (iv) maximize convenience for the consumer, and (v) respond quickly to consumer needs and inquiries. The Company believes that educating consumers about the features and benefits of Select Comfort air beds is critical to the success of its marketing and sales efforts, and devotes considerable time and resources to training programs for its retail, direct marketing and road show sales professionals. The retail stores also have displays that provide customers with the latest information on sleep technology and the features and benefits of Select Comfort air beds.

The Company's controlled distribution channels optimize the Company's direct contact with its customers and allow the Company to respond quickly to customer service inquiries and enhance customer satisfaction. The Company's multiple distribution channels also enhance the convenience for the consumer to purchase products through a variety of venues. In addition, the Company is currently testing the offering of in-home assembly services in selected markets through national and regional providers in order to provide greater convenience and enhance customer satisfaction.

Select Comfort maintains an in-house customer service department of approximately 50 customer service representatives who receive extensive training in sleep technology and all aspects of the Company's products and operations. The Company has recently implemented an interactive voice response system to improve customer service. The Company's customer service representatives field customer calls and also interact with each of the Company's retail stores to address customer questions and concerns raised with retail sales professionals. The customer service department makes outbound calls to new customers during the 90 Night Trial phase to answer questions and provide solutions to possible problems in order to enhance customer education, build customer satisfaction and reduce returns.

RESEARCH AND PRODUCT DEVELOPMENT

The Company has been granted 16 U.S. patents, has applications pending for six U.S. patents and maintains an active research and development department. The Company's research and development department continuously seeks to enhance the Company's knowledge of sleep dynamics and sleep technology, improve current product performance and benefits and develop new products. The research and development department also conducts clinical studies and product tests to measure the benefits of the Company's air beds, enhance the Company's sleep technology learning, develop product improvements and establish quality and performance standards. The Company has performed extensive pressure point testing in which Select Comfort air beds were tested against nationally recognized innerspring mattress brands and found to be superior in reducing

pressure points. A commissioned study conducted at the University of Memphis confirmed that spinal misalignments were generally lower on Select Comfort air

beds in comparison with both a leading innerspring mattress and a leading waterbed. A recent commissioned study conducted at the Stanford University Sleep Research Center indicated that participants using Select Comfort air beds experienced a significant improvement in the quality of their sleep in comparison to alternative mattress products. Three additional commissioned studies on the relationship between lower back pain, sleep quality and the sleep surface have found, on average, that 95% of lower back pain sufferers reported reduced pain, 88% experienced improved sleep quality and 80% experienced increased physical functioning when sleeping on a Select Comfort air bed in comparison with an innerspring mattress. Through customer surveys, Select Comfort seeks consumer feedback on a regular basis to help enhance existing products and develop new products. The Company's research and development expenses for 1995, 1996 and 1997 were $1.4 million, $1.5 million and $1.8 million, respectively.

Since the introduction of the Company's first air bed, the Company has continued to improve and expand its product line, including quieter firmness control systems, remote control gauges with digital settings, finer fabrics and covers, new generations of foams and foundation systems and enhanced border walls. The Company is currently exploring and expects to develop, either independently or with a strategic partner, additional product enhancements or extensions, including adjustable frames, space saver foundations with storage compartments and sound vibration mattresses providing relaxation and therapeutic effects.

In August 1998, the Company entered into a license agreement with Hillenbrand Industries, Inc. ("Hillenbrand"), a leading provider of high-end beds used primarily in the medical market, and Hillenbrand's wholly owned subsidiary, Sleep Options, Inc. ("Sleep Options"), pursuant to which the Company has obtained a limited exclusive license to Sleep Options' technology relating to various air and foam mattress structures, an articulating bed frame, a hand control device for mattresses and related product knowledge. The license allows the Company to leverage Hillenbrand's knowledge of sleep surface technology to manufacture and sell these products in the North American consumer market. The license does not permit the Company to sell these products to healthcare institutions or through healthcare distributors. The Company is also not permitted to manufacture or sell the articulating bed frame in combination with an innerspring mattress. For this license, the Company has agreed to pay a royalty based on a percentage of net sales, with certain minimum royalties. The license agreement has an initial term of three years.

MANUFACTURING AND DISTRIBUTION

The Company's manufacturing operations are located in Minneapolis and in Columbia, South Carolina and consist of quilting and sewing of the Company's fabric covers for its air beds, assembly of firmness control systems and final assembly and packaging of air beds and foundations from contract manufactured components. The Company currently conducts its manufacturing operations on two shifts (three shifts for sewing) and believes it has sufficient capacity to meet anticipated increases in demand through the next 12 months. The Company plans to open a third manufacturing and distribution facility in Salt Lake City in the first half of 1999, primarily to serve West Coast and Southwest destinations.

The Company manufactures air beds to meet orders rather than to stock inventory, which has enabled the Company to reduce inventory costs. Management stresses total quality manufacturing techniques, including employee training and team concepts designed to instill quality awareness and a performance and customer service orientation. Select Comfort utilizes multiple employee teams to accomplish its manufacturing objectives, rather than a continuous assembly line approach, and seeks to enhance employee involvement, enthusiasm and concern for quality through regular communication and meetings with employees regarding performance objectives.

Orders are currently shipped from one of the Company's two distribution centers, primarily via UPS, typically within 48 hours following order receipt,

and are usually received by the customer within five to eight business days after shipment. The Company is continually evaluating alternative carriers on a

national and regional basis, as well as recent tests in selected markets involving providers of in-home assembly services. See "Risk Factors--Reliance on Vendors; Foreign Sources of Supply" and "--Reliance Upon Carriers."

SUPPLIERS

The Company currently obtains all of the materials and components used to produce its air beds from outside sources. Components for the firmness control systems are obtained from a variety of primarily domestic sources. Quilting and ticking materials are obtained from a supplier in Belgium and components for foundation systems are obtained primarily from two domestic sources. The Company's proprietary air chambers are produced to Company specifications by one Eastern European supplier under a supply contract expiring in August 1999, pursuant to which the Company is obligated to purchase certain minimum quantities, but not all of its requirements. Either party can terminate the contract upon 90 days notice if such party ceases to use the air chambers in its business. The Company believes that it would be able to procure an adequate supply of air chambers from other sources on a timely basis if the supply contract is terminated or the Eastern European supplier is otherwise unable to supply air chambers. The Company has recently completed the development of an air chamber designed with new materials that will be manufactured by a U.S. based company at a foreign manufacturing facility. Full production of this new air chamber is expected to commence in the third quarter of 1999. The Eastern European supplier is expected to provide a second source of supply of this new air chamber during the second half of 1999. The Company does not presently have any contract or commitment from either supplier to manufacture the newly developed air chamber. The Company is continuously searching for alternative designs and materials for all of its components and materials, as well as alternative sources of supply. See "Risk Factors-- Reliance Upon Vendors; Foreign Sources of Supply."

The Company has a supplier certification program under which suppliers are required to meet rigorous standards relating to quality, service and ability to deliver materials on a basis compatible with the Company's demand manufacturing system and Year 2000 compliance. To date, nine of the Company's key suppliers have received certification and other authorized suppliers are in the process of seeking certification. Each of these suppliers, including the Company's Eastern European supplier of air chambers, have notified the Company that they are or will be Year 2000 compliant during 1999.

INFORMATION SYSTEMS

Since 1996, the Company has invested approximately $1.7 million in the design, development and implementation of its integrated enterprise information system. This system supports manufacturing operations, material planning, inventory management, order processing, returns and warranty tracking, financial management, human resources and distribution and tracking systems applications. In addition, the Company's order capture and database marketing systems allow each channel to gather inquiries and direct them to a central database, as well as to share and develop those leads on a coordinated and efficient basis. The Company also employs a point of sale system used at its retail operations. This system provides for the reporting of retail orders to the manufacturing department to speed order processing and allows retail stores to access and interact with the Company's direct marketing database to obtain information regarding inquiries and to report inquiries to the Company's central database.

The Company is in the process of internally developing and upgrading core applications for customer inquiries and for processing and tracking warranty claims and returns, which is scheduled for implementation in the first half of 1999. With the implementation of these applications, and the upgrade of the Company's integrated enterprise systems also scheduled for the first half of 1999, all of the Company's core business applications are expected to be Year 2000 compliant. See "Risk Factors--Year 2000 Compliance" and "Management's Discussion and Analysis of Financial Condition Results of Operations--Impact of Year 2000."

INTELLECTUAL PROPERTY

Certain elements of the design and function of the Select Comfort air beds are the subject of United States and foreign patents and patent applications owned by Select Comfort. As of October 3, 1998, the Company had 16 U.S. issued patents and six U.S. patent applications pending. The Company also held seven Canadian patents and had six Canadian patent applications pending as of October 3, 1998. Notwithstanding these patents and patent applications, no assurance can be given that such rights will provide substantial protection or that others will not be able to develop products that are similar to or competitive with the Select Comfort air beds. The Company is not aware of any claims that any element of the Company's air beds infringes or otherwise violates any intellectual property rights of any third parties.

The name "Select Comfort" and the Company's logo are trademarks of the Company registered with the United States Patent and Trademark Office. The trademark "Select Comfort" is also registered, or the subject of pending applications, in approximately 22 foreign countries. The Company has a number of other registered marks, including the trademarks "Comfort Club" and "Sleep Number," the service mark "Comfort Club," and a number of unregistered marks, including the trademarks "90 Night Trial," "Better Night's Sleep Guarantee" and "The Air Bed Company." The Company has a number of pending applications for trademark registrations in the United States and selected foreign countries. Each federally registered mark is renewable indefinitely if the mark is still in use at the time of renewal. The Company is not aware of any material claims of infringement or other challenges to the Company's right to use its marks. See "Risk Factors--Intellectual Property Protection."

COMPETITION

The mattress industry is highly competitive. Participants in the mattress industry compete primarily on price, quality, brand name recognition, product availability and product performance, including the perceived levels of comfort and support provided by a mattress. The Company's air beds compete with a number of different types of mattress alternatives, including innerspring mattresses, waterbeds, futons and other air-supported mattresses that are sold through a variety of channels, including furniture stores, bedding specialty stores, department stores, mass merchants, wholesale clubs, telemarketing programs, television infomercials and catalogs. The Company believes that its success depends in part on increasing consumer acceptance of existing products and the continuing introduction of products that have qualities and benefits which differentiate the Company's products from those offered by other manufacturers. There can be no assurance that such products will receive consumer acceptance or that the Company will continue to be able to successfully introduce such products. See "Risk Factors--Competition."

The traditional mattress industry is characterized by a high degree of concentration among the four largest manufacturers of innerspring mattresses with nationally recognized brand names, including Sealy, which also owns the Stearns & Foster brand name, Serta, Simmons and Spring Air. These manufacturers were estimated by FURNITURE/TODAY to account for approximately 62% of wholesale dollar sales in 1997. The balance of the mattress market is served by over 700 manufacturers, primarily operating on a regional basis. Many of these competitors, and in particular the four largest manufacturers named above, have greater financial, marketing and manufacturing resources and better brand name recognition than the Company, and sell their products through broader and more established distribution channels. The Company believes that a number of companies, including two of the four largest manufacturers, have begun to offer air beds. There can be no assurance that these or any other mattress manufacturer will not aggressively pursue the air bed market. Any such competition by the established manufacturers or new entrants into the market could have a material adverse effect on the Company's business, financial condition and operating results. In addition, should any of the Company's competitors reduce prices on premium mattress products, the Company may be required to implement price reductions in order to remain competitive, which could have a material adverse effect on its business, financial condition and operating results.

There are no provisions in the Company's retail store leases that limit or restrict competing businesses from operating in the malls in which the Company's stores are located. The lack of such restrictions and the lack of significant barriers to entry may result in new competition. Such competition could have a material adverse effect on the Company's business, financial condition and operating results.

EMPLOYEES

At October 3, 1998, the Company employed 1,466 persons, including 786 retail store employees, 118 direct marketing employees, 50 customer service employees, 24 road show sales professionals, 343 manufacturing and distribution employees and 145 management and administrative employees. Approximately 79 of the Company's employees were employed on a part-time basis at October 3, 1998. Except for managerial employees and professional support staff, all of the Company's employees are paid on an hourly basis plus commissions for sales associates. None of the Company's employees is represented by a labor union or covered by a collective bargaining agreement. The Company believes that its relations with its employees are good.

PROPERTIES

The Company currently leases all of its existing retail store locations and expects that its policy of leasing, rather than owning, will continue as it expands. The Company's store leases generally provide for an initial lease term of 10 years with a mutual termination option if the Company does not achieve certain minimum annual sales thresholds. Generally, the store leases require the Company to pay minimum rent plus percentage rent based on net sales in excess of certain thresholds, as well as certain operating expenses.

The Company leases 125,000 square feet of space in Minneapolis for one of the Company's manufacturing and distribution centers, one of the Company's direct marketing call centers, a customer service center, a research and development center and corporate offices, which lease expires in 2004. The Company also leases 105,000 square feet of space in Columbia, South Carolina, for its other manufacturing and distribution center and a direct marketing call center, which lease expires in 2003. The Company has agreed to lease approximately 100,800 square feet in Salt Lake City for a third manufacturing and distribution center that the Company expects to open in the first half of 1999, which lease expires in 2009.

CONSUMER CREDIT ARRANGEMENTS

In May 1997, the Company entered into an arrangement with Monogram Credit Card Bank of Georgia (the "Bank"), an affiliate of General Electric Capital Corporation, a creditor and warrantholder of the Company, pursuant to which the Bank offers to the Company's qualified customers an unsecured revolving credit arrangement to finance purchases from the Company. The Bank sets the rate, annual fees, late fees and all other terms and conditions relating to the customers' accounts, including collection policies and procedures, and is the owner of the receivables. The effective interest rate is comparable to rates generally available under similar consumer revolving credit arrangements. The Bank's current commitment extends to a maximum of $75 million of receivables outstanding. The Company expects to increase the amount of this commitment before the end of 1998.

In connection with all purchases financed under these arrangements, the Bank pays the Company an amount equal to the total amount of purchases net of promotional related discounts and less amounts retained for returned products and limited recourse on bad debts. The Bank had retained $3.9 million and $10.1 million as of January 3, 1998 and October 3, 1998, respectively. The Company's liability for bad debts is limited to a specified percentage of the receivables generated.

In the nine months ended October 3, 1998, approximately 51.0% of the Company's net sales were financed by the Bank through these arrangements. The average receivable outstanding generated under

these arrangements at September 30, 1998 was approximately $1,140, with an aggregate amount outstanding at that date of approximately $65.8 million. As part of its allowance for doubtful accounts, the Company maintains a reserve for recourse that may result under its arrangement with the Bank. The amount of this reserve at October 3, 1998 was approximately $2.6 million, representing approximately 3.9% of the related receivables as of that date. For financial statement purposes, the financing arrangement with the Bank has been accounted for as a sale of receivables. See "Risk Factors-- Dependence on Consumer Spending."

GOVERNMENTAL REGULATION

The Company's products and its marketing and advertising practices are subject to regulation by various federal, state and local regulatory authorities, including the Federal Trade Commission and the U.S. Food and Drug Administration. The mattress industry also engages in advertising self-regulation through certain voluntary forums, including the National Advertising Division of the Better Business Bureau. The Company is also subject to various other federal, state and local regulatory requirements, including federal, state and local environmental regulation and regulations issued by the U.S. Occupational Safety and Health Administration. See "Risk Factors--Regulatory Matters."

LEGAL PROCEEDINGS

The Company is involved in various legal proceedings incident to the ordinary course of its business. The Company believes that the outcome of all pending legal proceedings in the aggregate will not have a material adverse effect on its business, financial condition or operating results.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The executive officers and directors of the Company, and their ages as of October 3, 1998, are as follows:

NAME	AGE	POSITION
H. Robert Hawthorne.....	53	President, Chief Executive Officer and Director
Daniel J. McAthie.....	48	Executive Vice President, Chief Financial Officer, Chief Operating Officer and Secretary
Charles E. Dorsey.....	48	Senior Vice President of Direct Marketing and President of Select Comfort Direct Corporation
Ronald E. Mayle.....	40	Senior Vice President of Retail and President of Select Comfort Retail Corporation
Gregory T. Kliner.....	60	Senior Vice President of Operations
Ervin R. Shames(1)(2).....	58	Chairman of the Board
Thomas J. Albani(3).....	56	Director
Patrick A. Hopf(1)(2).....	49	Director
Christopher P. Kirchen(1)(3).....	55	Director
David T. Kollat(3).....	60	Director
Kenneth A. Macke(2).....	59	Director
Jean-Michel Valette(3).....	38	Director

(1) Member of the Executive Committee

(2) Member of the Compensation Committee

(3) Member of the Audit Committee

H. ROBERT HAWTHORNE has served as the President, Chief Executive Officer and a Director of the Company since April 1997. From February 1992 to December 1997, he served as President of The Pillsbury Brands Group, a subsidiary of The Pillsbury Company, which is a subsidiary of Diageo PLC. From June 1990 to January 1992, he was President and Chief Executive Officer of Alpo Petfoods, then a subsidiary of Grand Metropolitan PLC. Prior to joining Alpo Petfoods, Mr. Hawthorne was President and Chief Executive Officer of Pillsbury Canada, a subsidiary of Diageo PLC.

DANIEL J. MCATHIE has served as Executive Vice President, Chief Financial Officer and Secretary since October 1995. Mr. McAthie also served as Chief Administrative Officer from October 1995 to October 1998, at which time he was named Chief Operating Officer. From May 1990 to April 1995, Mr. McAthie held the positions of Senior Vice President, Chief Financial Officer, Vice President and Treasurer of Fingerhut Companies, Inc., a mail order catalog company.

CHARLES E. DORSEY has served as Senior Vice President of Direct Marketing since January 1992 and President of Select Comfort Direct Corporation since March 1996. From March 1988 to December 1991, Mr. Dorsey served as Chief Operating Officer for DM Shelter, Inc., a custom packaged home company.

RONALD E. MAYLE has served as Senior Vice President of Retail of the Company and President of Select Comfort Retail Corporation since December 1997. From October 1996 to December 1997, Mr. Mayle served as Managing Member of Management & Capital, a retail consulting firm. From May 1995 to

October 1996, Mr. Mayle served as an independent retail marketing consultant. From April 1992 to May 1995, Mr. Mayle was Vice President of Operations of Petstuff, Inc., a subsidiary of PetsMart Inc.

GREGORY T. KLINER has served as Senior Vice President of Operations since August 1995. From October 1986 to August 1995, Mr. Kliner served as Director of Operations of the Irrigation Division for The Toro Company, a manufacturer of lawn care and snow removal products and irrigation systems.

ERVIN R. SHAMES has served as a Director of the Company and Chairman of the Board of Directors since April 1996. From January 1995 to March 1996, Mr. Shames served as an independent strategic and management consultant. From December 1993 to January 1995, Mr. Shames served as the Chief Executive Officer of Borden, Inc. and was President and Chief Operating Officer of Borden, Inc. from July 1993 until December 1993. From June 1992 to July 1993, Mr. Shames served as Chairman and Chief Executive Officer of The Stride Rite Corporation, a footwear manufacturer, and was President and Chief Executive Officer of The Stride Rite Corporation from June 1990 to June 1992. Mr. Shames is also a director of the First Brands Corporation.

THOMAS J. ALBANI has served as a Director of the Company since February 1994. Mr. Albani served as President and Chief Executive Officer of Electrolux Corporation, a manufacturer of premium floor care machines, from July 1991 to May 1998. From September 1984 to April 1989, Mr. Albani was employed by Allegheny International Inc., a home appliance manufacturing company, in a number of positions, most recently as Executive Vice President and Chief Operating Officer.

PATRICK A. HOPF has served as a Director of the Company since December 1991. From August 1993 to April 1996, Mr. Hopf served as the Chairman of the Board of

Directors of the Company. Mr. Hopf was elected to the Board of Directors of the Company in connection with the purchase agreement under which the Series A Preferred Stock was purchased. See "Certain Transactions--Director Relationships" and "-- Voting Agreement and Stock Restriction Agreement." Mr. Hopf has been President of St. Paul Venture Capital, Inc., a venture capital firm, and Vice President of St. Paul Fire and Marine Insurance Company since August 1988, and Managing General Partner of St. Paul Venture Capital IV, LLC since its formation in January 1997. St. Paul Fire and Marine Insurance Company, St. Paul Venture Capital IV, LLC and St. Paul Venture Capital Affiliates Fund I, L.L.C., of which St. Paul Venture Capital, Inc. is the manager, are investors in the Company. Mr. Hopf also serves as a director of a number of privately held companies.

CHRISTOPHER P. KIRCHEN has served as a Director of the Company since December 1991. Mr. Kirchen was elected to the Board of Directors of the Company in connection with the purchase agreement under which the Series B Preferred Stock was purchased. See "Certain Transactions--Director Relationships" and "--Voting Agreement and Stock Restriction Agreement." Mr. Kirchen is currently Managing General Partner of Brand Equity Ventures, a venture capital partnership that he co-founded in March 1997. Mr. Kirchen is also a General Partner of Consumer Venture Partners, an investor in the Company, a position he has held since 1986. Mr. Kirchen also serves as a director of a number of privately held companies.

DAVID T. KOLLAT has served as a Director of the Company since February 1994. Mr. Kollat has served as President and Chairman of 22 Inc., a research and consulting company for retailers and consumer goods manufacturers, since 1987. From 1976 until 1987, Mr. Kollat served in various capacities for The Limited, including Executive Vice President of Marketing and President of Victoria's Secret Catalogue. Mr. Kollat also serves as a director of numerous companies, including The Limited, Inc., Wolverine World Wide, Inc., Consolidated Stores, Inc. and Cooker Restaurant Corporation.

KENNETH A. MACKE has served as a Director as a of the Company since September 1994. Mr. Macke is General Partner of Macke Limited Partnership, a venture capital firm and investor in the Company. He previously served as Chairman and Chief Executive Officer of Dayton Hudson Corporation from 1984 to 1994, prior to which he was employed by Dayton Hudson in a variety of positions beginning in 1961.

Mr. Macke also serves as a director of Unisys Corporation, General Mills, Inc. and Fingerhut Companies, Inc.

JEAN-MICHEL VALETTE has served as a Director of the Company since 1994. Mr. Valette was elected to the Board of Directors of the Company in connection with the purchase agreement under which the Series D Preferred Stock was purchased. See "Certain Transactions--Director Relationships" and "--Voting Agreement and Stock Restriction Agreement." Mr. Valette has served as President and Chief Executive Officer of Franciscan Estates, Inc., a winery in Northern California, since August 1998. Mr. Valette was a Managing Director of Hambrecht & Quist LLC from October 1994 to August 1998 and a Senior Analyst of Hambrecht & Quist LLC from November 1992 to October 1994. Mr. Valette is also a member of the general partner of H&Q Select Comfort Investors, L.P., an investor in the Company and a related party to Hambrecht & Quist LLC. Hambrecht & Quist LLC is one of the Underwriters of this offering. From 1981 to 1983, Mr. Valette was a consultant with The Boston Consulting Group. Mr. Valette also serves as a director of a number of privately held companies.

BOARD OF DIRECTORS

Effective upon completion of this offering, the Board of Directors will consist of three classes of directors, each class serving for a staggered three-year term. The Class A directors, whose initial terms will expire at the 1999 annual shareholders meeting, will be Messrs. Kirchen, Macke and Valette. The Class B directors, whose initial terms will expire at the 2000 annual shareholders meeting, will be Messrs. Hopf and Shames. The Class C directors, whose initial terms will expire at the 2001 annual shareholders meeting, will be Messrs. Hawthorne, Kollat and Albani.

COMMITTEES

The Board of Directors has an Executive Committee, an Audit Committee and a Compensation Committee. The Executive Committee has the authority to take all actions that the Board as a whole is able to take, except as limited by applicable law. The Audit Committee provides assistance to the Board in satisfying its fiduciary responsibilities relating to accounting, auditing, operating and reporting practices of the Company, and reviews the annual financial statements of the Company, the selection and work of the Company's independent auditors and the adequacy of internal controls for compliance with corporate policies and directives. The Compensation Committee reviews general programs of compensation and benefits for all employees of the Company and makes recommendations to the Board concerning such matters as compensation to be paid to the Company's officers and directors.

DIRECTOR COMPENSATION

Effective upon completion of this offering, all non-employee directors of the Company (other than Ervin R. Shames, who is entitled to the compensation described below) will receive $3,500 for each meeting of the Board of Directors attended and $500 for each meeting of the Executive Committee, Audit Committee or Compensation Committee attended. In addition, all non-employee directors (other than Mr. Shames) will be granted, on an annual basis, an option to purchase 2,000 shares of Common Stock exercisable at the fair market value of the Common Stock on the date of grant for a period of up to 10 years, subject to their continuous service on the Board of Directors. Directors who are officers or employees of the Company do not receive additional compensation for their services as directors. All directors are reimbursed for travel expenses for attending meetings of the Board and any Board committees.

In April 1996, the Company entered into a Consulting Agreement with Ervin R. Shames, Chairman of the Board, pursuant to which Mr. Shames renders certain consulting services to the Company. Pursuant to the Consulting Agreement, Mr. Shames received $120,000 in 1997 for consulting services rendered. See "--Employment and Consulting Agreements."

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Hopf, Albani and Macke served as members of the Compensation Committee of the Board of Directors during 1997. Mr. Hopf is the President of St. Paul Venture Capital, Inc. and Vice President of St. Paul Fire and Marine Insurance Company, and Mr. Macke is the General Partner of Macke Limited Partnership, each of which is an investor in the Company. For a description of certain transactions involving these entities, see "Certain Relationships and Related Transactions" and "Principal and Selling Shareholders." Mr. Hopf served as Chairman of the Board of the Company from August 1993 to April 1996. No other relationships existed during 1997 with respect to Messrs. Hopf, Albani or Macke that would be required to be disclosed under the rules of the Securities Act. Messrs. Hopf, Macke and Shames currently serve as members of the Compensation Committee of the Board of Directors.

EXECUTIVE COMPENSATION

The following table describes the compensation earned in 1997 by (i) the Chief Executive Officer of the Company; and (ii) each of the four other most highly compensated executive officers of the Company whose salary and bonus exceeded $100,000 in 1997 (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

				LONG-TERM COMPENSATION	
		ANNUAL COMPENSATION		SECURITIES	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION ($)
H. Robert Hawthorne(1) ..... President and Chief Executive Officer	1997	$ 225,000	$ 27,000	400,000	--

Mark L. de Naray(2) ..... Former President and Chief Executive Officer	1997	90,898	--	--	$ 148,515(3)
Daniel J. McAthie ..... Executive Vice President, Chief Financial Officer, Chief Operating Officer and Secretary	1997	198,655	23,838	55,000	--
Charles E. Dorsey ..... Senior Vice President of Retail and President of Select Comfort Direct Corporation	1997	155,540	81,381	35,000	--
John D. Watson(4) ..... Former Senior Vice President of Corporate Marketing	1997	149,423	17,931	35,000	--
Gregory T. Kliner ..... Senior Vice President of Operations	1997	147,095	17,652	35,000	--

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(1) Mr. Hawthorne became President and Chief Executive Officer of the Company effective April 28, 1997.

(2) Mr. de Naray was President and Chief Executive Officer of the Company through April 27, 1997.

(3) Represents severance payments in an aggregate amount of $147,115 and term life insurance premiums in the aggregate amount of $1,400 paid by the Company for the benefit of Mr. de Naray. See "--Separation Agreements."

(4) Mr. Watson resigned from the Company effective September 1, 1998. See "--Separation Agreements."

OPTION GRANTS IN LAST FISCAL YEAR

The following table summarizes stock option grants during 1997 to each of the Company's Named Executive Officers.

	INDIVIDUAL GRANTS(1)				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(2)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5% ($)	10% ($)
H. Robert Hawthorne.....	300,000(3)	31.3%	$ 5.25	3/27/07	$ 990,509	$ 2,510,144
	100,000(4)	10.4	5.25	3/27/07	330,170	836,715
Mark L. de Naray.....	--	--	--	--	--	--
Daniel J. McAthie.....	20,000(3)	2.1	5.25	3/27/07	66,034	167,343
	35,000(4)	3.6	5.25	3/27/07	115,559	292,850
Charles E. Dorsey.....	35,000(4)	3.6	5.25	3/27/07	115,559	292,850
John D. Watson.....	35,000(4)	3.6	5.25	3/27/07	115,559	292,850
Gregory T. Kliner.....	35,000(4)	3.6	5.25	3/27/07	115,559	292,850

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(1) All of the options granted to the Named Executive Officers were granted under the Company's 1997 Stock Incentive Plan. See "--Stock Option and Incentive Plans" for a discussion of the material terms of option grants under such plan.

(2) In accordance with the rules of the Commission, the amounts shown on this table represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date and do not reflect the Company's estimates or projections of future Common Stock prices. The gains shown are net of the option price, but do not include deductions for taxes or other expenses associated with the exercise. Actual

gains, if any, on stock option exercises will depend upon the future performance of the Common Stock, the executive's continued employment with the Company or its subsidiaries and the date on which the options are exercised. The amounts represented in this table might not necessarily be achieved.

(3) These options become exercisable in as nearly equal as possible monthly installments over a 36-month period, so long as the executive remains employed by the Company or one of its subsidiaries at that date. To the extent not already exercisable, these options become immediately exercisable in full upon certain changes in control of the Company and remain exercisable for the remainder of their term. See "--Stock Option and Incentive Plans."

(4) These options become exercisable in full upon the earlier of the following to occur: (a) the date on which the average of the high and low sales prices of the Company's Common Stock, as reported by the Nasdaq National Market System, exceeds $22.00 per share for at least 30 consecutive trading days; or (b) March 28, 2002, so long as the executive remains employed by the Company or one of its subsidiaries at that date. To the extent not already exercisable, these options become immediately exercisable in full upon certain changes in control of the Company that result in consideration received or to be received by the shareholders of the Company as a result of such transaction exceeding $22.00 per share of Common Stock on a fully diluted basis.

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table summarizes the number and value of options exercised during 1997 and the value of options held by the Named Executive Officers at January 3, 1998.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT JANUARY 3, 1998		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT JANUARY 3, 1998(1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
H. Robert Hawthorne.....	--	--	75,000	325,000	$ 356,250	$ 1,543,750
Mark L. de Naray.....	180,000(2)	$ 891,000	--	--	--	--
	47,950(2)	237,353				
	84,340(2)	409,049				
	600(2)	2,910				
	173,110(2)	830,928				
	28,000(2)	119,000				
	16,000(2)	7,200				
	8,000(2)	0				
Daniel J. McAthie.....	--	--	80,266	84,734	408,887	413,113
Charles E. Dorsey.....	2,000	19,400	100,490	40,910	931,592	204,738
John D. Watson.....	--	--	35,552	79,448	168,872	377,378
Gregory T. Kliner.....	--	--	58,880	56,120	302,423	273,077

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(1) Value based on the difference between the fair market value of one share of Common Stock at January 3, 1998 ($10.00), as determined by the Board of Directors, and the exercise price of the options ranging from $0.30 to $5.25 per share. Options are in-the-money if the market price of the shares exceeds the option exercise price.

(2) Mr. de Naray exercised these options on February 20, 1997 and paid for the shares by executing a full recourse promissory note in the amount of $386,550. See "--Separation Agreements."

EMPLOYMENT AND CONSULTING AGREEMENTS

On April 3, 1997, the Company entered into a Letter Agreement with H. Robert Hawthorne pursuant to which Mr. Hawthorne serves as President and Chief Executive Officer as well as a director of the Company. Mr. Hawthorne's base salary is $350,000 per year, and he is entitled to receive an incentive bonus if certain performance criteria are met. Under the terms of the Letter Agreement, Mr. Hawthorne was granted two ten-year options to purchase an aggregate of 400,000 shares of Common Stock at an exercise price of $5.25 per share. Of these options: (i) an option to purchase 300,000 shares of Common Stock becomes exercisable in as nearly equal as possible monthly installments over a 36-month period, so long as Mr. Hawthorne remains employed by the Company or one of its subsidiaries at such date and (ii) the other option is a "performance-based" option and becomes exercisable as to 100,000 shares of Common Stock upon the earlier of the following to occur: (a) the date on which the average of the high and low sales prices of the Company's Common Stock, as reported by the Nasdaq National Market System, exceeds $22.00 per share for at least 30 consecutive trading days; or (b) March 28, 2002, so long as Mr. Hawthorne remains employed by the Company or one of its subsidiaries at such date. Mr. Hawthorne is entitled to a minimum severance payment of 24 months base salary in the event he is terminated without cause.

On October 20, 1995, the Company entered into a Letter Agreement with Daniel J. McAthie pursuant to which Mr. McAthie serves as Executive Vice President, Chief Financial Officer and Chief Operating Officer of the Company. Mr. McAthie receives a base salary and is entitled to receive an incentive bonus if certain performance criteria are met. Under the terms of the Letter Agreement, Mr. McAthie was granted a ten-year option to purchase 85,000 shares of Common Stock at an exercise price of $4.80 per share. This option becomes exercisable in as nearly equal as possible monthly installments over a 36-month period, so

long as Mr. McAthie remains employed by the Company or one of its subsidiaries at such date. Mr. McAthie is also entitled to a minimum severance payment equal to his nine month's then current base salary in the event of termination without cause.

On July 11, 1995, the Company entered into a Letter Agreement with Gregory T. Kliner pursuant to which Mr. Kliner serves as Senior Vice President of Operations of the Company. Mr. Kliner receives a base salary and is entitled to receive an incentive bonus if certain performance criteria are met. Under the terms of the Letter Agreement, Mr. Kliner was granted a ten-year option to purchase 65,000 shares of Common Stock at an exercise price of $4.80 per share. This option becomes exercisable in as nearly equal as possible monthly installments over a 36-month period, so long as Mr. Kliner remains employed by the Company or one of its subsidiaries at such date.

The Company and Mr. Shames entered into a Consulting Agreement and a related Stock Option Agreement, each dated April 1, 1996, under which Mr. Shames serves as a consultant to assist the Company in various executive and management duties. The Consulting Agreement has a term of three years. Under the Consulting Agreement, Mr. Shames is entitled to a monthly retainer of $10,000 and reimbursement of certain expenses. In addition to the monthly retainer, Mr. Shames was granted, effective April 1, 1996, a ten-year, non-qualified option to purchase 150,000 shares of Common Stock at an exercise price of $5.25 per share, 50,000 shares of which became immediately exercisable and the remaining 100,000 shares of which become exercisable in as nearly equal as possible monthly installments over the three-year term of the Consulting Agreement, so long as Mr. Shames remains engaged as a consultant, officer or director of the Company. Pursuant to the Consulting Agreement, Mr. Shames was also granted a ten-year, non-qualified option effective April 1, 1997 to purchase 50,000 shares of Common Stock at an exercise price of $6.50 per share which becomes exercisable in as nearly equal as possible monthly installments over a 24-month period, and a ten-year, non-qualified option, effective April 1, 1998 to purchase 25,000 shares of Common Stock at an exercise price of $11.00 per share which becomes exercisable in as nearly equal as possible monthly installments over a 12-month

period. The Company also agreed to grant Mr. Shames, effective April 1, 1999, subject to the Board of Directors' discretion, a non-qualified option to purchase 25,000 shares of Common Stock at an exercise price equal to the fair market value of the Common Stock on such date which option will become immediately exercisable in full on such date. The Consulting Agreement provides that Mr. Shames will not compete with the Company for a period of two years after the termination of the Consulting Agreement.

SEPARATION AGREEMENTS

On February 20, 1997, the Company entered into a Separation Agreement with Mark L. de Naray, the former President and Chief Executive Officer and a former director of the Company. Under the Separation Agreement, the Company agreed to provide Mr. de Naray with certain payments and benefits, including (i) payment of Mr. de Naray's base salary through July 31, 1998, (ii) payment of a $50,000 cash bonus, (iii) continuation of health, dental and life insurance coverage until July 31, 1998, (iv) loans from the Company in the amount necessary to enable Mr. de Naray to exercise any outstanding options held by him and to pay one-half of the income tax liability resulting therefrom. and (v) reimbursement of certain other expenses in an amount not to exceed $10,000. The Company loaned Mr. de Naray approximately $336,550, in addition to the $50,000 Mr. de Naray previously owed the Company, in order to provide Mr. de Naray funds to exercise his options. The original principal amount of the full recourse note was $386,550 and it bears interest at the rate of 9 1/4% per annum. The entire principal balance and all accrued interest on the note is due in full on the earlier of (i) six months following the completion of this offering or (ii) April 30, 1999. The loan is secured by Mr. de Naray's pledge of 150,000 shares of Common Stock. The outstanding principal balance and accrued interest on the note was approximately $417,700 as of January 3, 1998 and $446,407 as of October 3, 1998. Pursuant to the Separation Agreement, the Company loaned an additional $425,000 to Mr. de Naray on April 13, 1998 to enable Mr. de Naray to pay one-half of the income tax liability resulting from the exercise of his options in February 1997, which loan is evidenced by a note and a pledge agreement containing the same terms and conditions as described above, including the pledge of an additional 150,000 shares of Common Stock. The outstanding principal balance and

accrued interest on this note was approximately $443,633 as of October 3, 1998. Under the Separation Agreement, the Company agreed to use its good faith efforts to enable Mr. de Naray to sell up to 50,000 shares of Common Stock in this offering. Under the Separation Agreement, Mr. de Naray agreed not to disclose any confidential information of the Company until July 31, 2003, and until July 31, 1999, not to compete with the Company, interfere with the Company's relationships with any of its current or potential vendors, suppliers, distributors or customers and not to solicit any employees of the Company so long as they remain employees of the Company.

On July 13, 1998, the Company entered into a Separation Agreement with John D. Watson, the former Senior Vice President of Corporate Marketing of the Company. Under the Separation Agreement, the Company agreed to provide Mr. Watson with certain payments and benefits, including (i) payment of Mr. Watson's base salary through August 1, 1999, (ii) payment of a cash bonus at the end of 1998 equal to 8/12 of Mr. Watson's bonus had he remained an employee during the remainder of 1998, (iii) continuation of health, dental and life insurance coverage until July 31, 1999, and (iv) reimbursement of certain other expenses in an amount not to exceed $5,000. Under the Separation Agreement, Mr. Watson agreed not to disclose any confidential information of the Company and, until February 29, 2000, not to compete with the Company, interfere with the Company's relationships with any of its current or potential vendors, suppliers, distributors or customers and not to solicit any current employees of the Company.

STOCK OPTION AND INCENTIVE PLANS

The Company grants options pursuant to its 1990 Omnibus Stock Option Plan (the "1990 Plan") and its 1997 Stock Incentive Plan (the "1997 Plan"). Each of the 1990 Plan and the 1997 Plan provides for the grant to eligible participants of options to purchase shares of Common Stock that qualify as "incentive stock

options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended ("Incentive Options"), as well as options that do not qualify as Incentive Options ("Non-Statutory Options"). In addition, the 1997 Plan provides for awards to eligible recipients of stock appreciation rights, restricted stock awards, performance units and stock bonuses. Eligible participants under these plans include employees, officers, directors, consultants and independent contractors of the Company and its subsidiaries. Each of these plans is administered by the Compensation Committee of the Board of Directors, which determines the persons who are to receive awards, as well as the type, terms and number of shares subject to each award. The 1990 Plan will terminate on May 29, 2000, and the 1997 Plan will terminate on March 28, 2007, in each case unless earlier terminated by the Board of Directors.

The Company has reserved an aggregate of 2.8 million shares of Common Stock for awards under the 1990 Plan. As of October 3, 1998, options to purchase an aggregate of 720,868 shares of Common Stock were outstanding under the 1990 Plan, of which 562,994 were fully vested, and a total of 413,594 shares of Common Stock remained available for grant under the 1990 Plan. The Company has reserved an aggregate of 1.5 million shares of Common Stock for awards under the 1997 Plan. As of October 3, 1998, options to purchase an aggregate of 939,659 shares of Common Stock were outstanding under the 1997 Plan, of which 234,982 were fully vested, and a total of 457,701 shares of Common Stock remained available for grant under the 1997 Plan. As of October 3, 1998, the outstanding options under the plans were held by an aggregate of 145 individuals and were exercisable at prices ranging from $0.45 to $19.00 per share of Common Stock. Options granted under the plans generally become exercisable in as nearly equal as possible monthly installments over a 36-month period. Shares subject to options granted under the plans that lapse or are terminated may again be subject to grants under the plans.

Prior to the consummation of this offering, the Company plans to grant options to purchase an aggregate of up to 125,000 shares of Common Stock under the 1997 Plan at an exercise price equal to the initial public offering price of the shares of Common Stock offered hereby. These options will be granted to all full time employees of the Company who have not previously received an option grant. These grants will range from 50 to 200 shares, depending on years of service with the Company and will vest in equal annual installments over three years.

Incentive Options granted under the plans may not have an exercise price less than the fair market value of the Common Stock on the date of the grant (or, if granted to a person holding more than 10% of

the Company's voting stock, at less than 110% of fair market value). Non-Statutory Options granted under the plans may not have an exercise price less than 85% of fair market value on the date of grant. Aside from the maximum number of shares of Common Stock reserved under the plans, there is no minimum or maximum number of shares that may be subject to options. However, the aggregate fair market value of the stock subject to Incentive Options granted to any optionee that are exercisable for the first time by an optionee during any calendar year may not exceed $100,000. Options generally expire when the optionee's employment or other service is terminated with the Company and its subsidiaries. Options generally may not be transferred, other than by will or the laws of descent and distribution, and during the lifetime of an optionee, may be exercised only by the optionee. The term of each option, which is fixed by the Board at the time of grant, may not exceed ten years from the date the option is granted (except that an Incentive Option granted to a person holding more than 10% of the Company's voting stock may be exercisable only for five years).

Each of the 1990 Plan and the 1997 Plan contains provisions under which options would become fully exercisable following certain changes in control of the Company, such as (i) the sale, lease, exchange or other transfer of all or substantially all of the assets of the Company to a corporation that is not controlled by the Company, (ii) the approval by the shareholders of the Company of any plan or proposal for the liquidation or dissolution of the Company, (iii) certain merger or business combination transactions, (iv) more than 50% of the Company's outstanding voting shares are acquired by any person or group of persons who did not own any shares of Common Stock on the effective date of the

respective plan, or (v) certain changes in the composition of the Board of Directors of the Company. In addition, under the 1997 Plan, in the event of a change in control of the Company, all stock appreciation rights will become fully exercisable, all restricted stock awards will become immediately and fully vested and all performance units and stock bonuses will vest and/or continue to vest according to the terms of the agreements evidencing such awards. In addition, under the 1997 Plan, in the event of such a change in control, the Compensation Committee, in its sole discretion, may provide that some or all participants holding outstanding options will receive for each share of Common Stock subject to such options cash in an amount equal to the excess of the fair market value of such shares immediately prior to the effective date of a change in control over the exercise price per share of such options. The acceleration of the exercisability of options under the Plans may be limited, however, if the acceleration would be subject to an excise tax imposed upon "excess parachute payments."

Payment of an option exercise price may be made in cash, or at the Compensation Committee's discretion, in whole or in part by tender of a broker exercise notice, a promissory note or previously acquired shares of Common Stock of the Company having an aggregate fair market value on the date of exercise equal to the payment required.

PROFIT SHARING AND 401(K) SAVINGS PLAN

On January 1, 1994, the Company adopted a Profit Sharing and 401(k) Plan (the "401(k) Plan"). Employees who are employed on a full time basis and are 21 years old or over are eligible to participate in the 401(k) Plan on the first day of the first calendar month following their employment commencement date. Employees who are employed on a less than full time basis and are 21 years old or over are eligible to participate in the 401(k) Plan on the first day of the first calendar month once such employees have completed at least 1,000 hours of service during the 12 months following their employment commencement date or have completed 1,000 hours of service during the preceding plan year. Employees may make salary reduction contributions to the 401(k) Plan up to the maximum amount permitted by law. The Company may make discretionary matching contributions equal to a percentage of the amount of the salary reduction the employee elected. This percentage is determined annually by the Company. During the first nine months of 1998, the Company contributed $78,000 to the 401(k) Plan. The Company did not make any contributions during 1995, 1996 and 1997. Generally, employer matching contributions are vested at the rate of 20% per year of service commencing after the employee has completed two years of service. Employee salary reduction contributions under the 401(k) Plan are always 100% vested.

NONQUALIFIED DEFERRED COMPENSATION PLAN

On October 1, 1998, the Company adopted a Nonqualified Deferred Compensation Plan (the "DC Plan") for employees of the Company at or above director level managers. Eligible employees are permitted to elect to defer a portion of their compensation from the Company up to 50% of the employee's salary and 100% of the employee's bonus in the initial plan year ending December 31, 1998, and up to 25% of the employee's salary and 100% of the employee's bonus for each calendar year thereafter. The deferred compensation is credited to one or more accounts designated by the employee. The Company is permitted, but is not obligated, to make matching or discretionary contributions to participants' accounts. The Company has not made any matching or discretionary contributions under the DC Plan to date. Generally, employer matching or discretionary contributions are vested at the rate of 20% per year of service commencing after the employee has completed two years of service. Amounts deferred by election of a participant are always 100% vested.

CERTAIN TRANSACTIONS

DIRECTOR RELATIONSHIPS

Patrick A. Hopf, a director of the Company, is the President of St. Paul Venture Capital, Inc. and the Vice President of St. Paul Fire and Marine Insurance Co., both of which are shareholders of the Company. Mr. Hopf was elected to the Board of Directors of the Company in connection with the purchase agreement under which the Series A Preferred Stock was purchased.

Christopher P. Kirchen, a director of the Company, is a general partner of Consumer Venture Associates, L.P., which is the general partner of Consumer Venture Partners I, L.P., a shareholder of the Company. Mr. Kirchen is also the general partner of Consumer Venture Associates II, L.P., which is the general partner of Consumer Venture Partners II, L.P., a shareholder of the Company. Mr. Kirchen was elected to the Board of Directors of the Company in connection with the purchase agreement under which the Series B Preferred Stock was purchased.

Jean-Michel Valette, a director of the Company, was a Managing Director of Hambrecht & Quist LLC from October 1994 to August 1998 and a Senior Analyst of Hambrecht & Quist LLC from November 1992 to October 1994. Mr. Valette is also a member of the general partner of H&Q Select Comfort Investors, L.P., an investor in the Company and a related party to Hambrecht & Quist LLC. Mr. Valette was elected to the Board of Directors of the Company in connection with the purchase agreement under which the Series D Preferred Stock was purchased. Hambrecht & Quist LLC is one of the Underwriters of this offering.

CERTAIN SALES OF SECURITIES

Since January 1, 1995, the Company has sold shares of Series E Preferred Stock, promissory notes convertible into shares of Common Stock and warrants to purchase shares of Common Stock to various investors, including certain directors, executive officers, greater-than 5% shareholders and entities affiliated with directors at the time of sale. Such securities were sold to such affiliated purchasers on the same terms as they were sold to non-affiliated purchasers.

SERIES E FINANCING

On December 28, 1995, the Company sold an aggregate of 857,143 shares of Series E Preferred Stock pursuant to the Company's Series E Convertible Preferred Stock Purchase Agreement dated December 28, 1995 (the "Series E Purchase Agreement"), at a price of $10.50 per share for an aggregate purchase price of approximately $9.0 million. The Series E Purchase Agreement was amended in April 1996 to provide for the issuance to such purchasers of Series E Preferred Stock warrants to purchase an aggregate of 171,429 shares of Common Stock exercisable through December 28, 2005 at an exercise price of $5.25 per share. The following entities and individuals purchased shares of Series E Preferred Stock and were issued warrants in the following amounts: Apex Investment Fund, L.P. (19,380 shares of Series E Preferred Stock convertible into 23,071 shares of Common Stock and a warrant to purchase 3,876 shares); related parties to Hambrecht & Quist LLC (45,000 shares of Series E Preferred Stock convertible into 53,570 shares of Common Stock and a warrant to purchase 9,000 shares); Macke Limited Partnership (11,900 shares of Series E Preferred Stock convertible into 14,166 shares of Common Stock and a warrant to purchase 2,380 shares); Marquette Venture Partners II, L.P. and MVP Affiliates Fund, L.P. (257,150 shares of Series E Preferred Stock convertible into 306,130 shares of Common Stock and a warrant to purchase 51,430 shares); Norwest Equity Partners V (257,150 shares of Series E Preferred Stock convertible into 306,130 shares of Common Stock and a warrant to purchase 51,430 shares); St. Paul Fire and Marine Insurance Co. (100,000 shares of Series E Preferred Stock convertible into 119,047 shares of Common Stock and a warrant to purchase 20,000 shares); John Sculley (15,000 shares of Series E Preferred Stock convertible into 17,857 shares of Common Stock and a warrant to purchase 3,000 shares); Patrick A. Hopf (950 shares of Series E Preferred Stock convertible into 1,129 shares of Common Stock and a warrant to

purchase 190 shares); Mark L. de Naray (500 shares of Series E Preferred Stock convertible into 595 shares of Common Stock and a warrant to purchase 100 shares); and Daniel J. McAthie (20,000 shares of Series E Preferred Stock

convertible into 23,809 shares of Common Stock and a warrant to purchase 4,000 shares).

1996 BRIDGE FINANCING

In November 1996, the Company borrowed an aggregate of approximately $1,252,000 from certain existing shareholders and issued promissory notes evidencing such loans. Interest on these notes accrued at an annual rate of 8%. The Company granted each of these shareholders ten-year warrants to purchase a number of shares of Common Stock equal to 25% of the principal amount of such shareholder's note divided by $5.25 (an aggregate of 59,606 shares), at an exercise price of $5.25 per share. The promissory notes were due on the earlier of (i) the closing of an equity financing of $10.0 million or more, or (b) November 1, 1997. The Company paid off the promissory notes in full in March 1997 and granted each of these shareholders additional ten-year warrants to purchase a number of shares equal to 5% of the principal amount of such shareholder's note divided by $5.25 (an aggregate of 11,919 shares), exercisable through October 31, 2006 at an exercise price of $5.25 per share. The following entities purchased notes and warrants in the following amounts: Apex Investment Fund, L.P. ($126,450 and warrants to purchase 7,226 shares); Macke Limited Partnership ($6,000 and warrants to purchase 343 shares); Norwest Equity Partners V ($122,550 and warrants to purchase 7,003 shares); and St. Paul Fire and Marine Insurance Co. ($835,150 and warrants to purchase 47,723 shares).

AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT

All holders of Common Stock issuable upon conversion of the preferred stock or upon exercise of certain warrants have certain demand and incidental registration rights covering such shares of Common Stock pursuant to the Amended and Restated Registration Rights Agreement dated December 28, 1995, as amended, among the Company and the other parties thereto. See "Description of Securities-- Registration Rights--Amended and Restated Registration Rights Agreement."

VOTING AGREEMENT AND STOCK RESTRICTION AGREEMENT

The Company and the purchasers of the preferred stock entered into a Voting Agreement in connection with the purchase agreements under which the preferred stock was purchased, pursuant to which Saint Paul Fire and Marine Insurance Co., Cherry Tree Ventures IV, Consumer Venture Partners, Apex Investment Fund, L.P. and KCB BV, L.P. each were granted the right to designate one director to the Board of Directors so long as each held at least 20% of the number of shares originally purchased by such investor pursuant to the Series A Purchase Agreement (in the case of Saint Paul Fire and Marine Insurance Co., Cherry Tree Ventures IV and Consumer Venture Partners), Series B Purchase Agreement (in the case of Apex Investment Fund, L.P.) or Series C Purchase Agreement (in the case of KCB BV, L.P.). In connection with the Series D Purchase Agreement and the Series E Purchase Agreement, related parties to Hambrecht & Quist LLC and Marquette Venture Partners II, L.P., respectively, were granted a one-time right to designate one director to the Board of Directors. All of the holders of the preferred stock agreed to vote their shares of preferred stock and any other shares of capital stock of the Company owned by such holder in favor of the election of the persons designated by the respective shareholders. In addition, in connection with the Series A Financing, the Company, the holders of the Series A Preferred Stock and Robert A. Walker and JoAnn Walker (collectively, the "Promoters") entered into a Stock Restriction Agreement. The Stock Restriction Agreement was amended to include all subsequent purchasers of preferred stock. Under this agreement, the Company, the holders of the preferred stock and J.P. Poole had certain rights of first refusal to purchase and to participate in any sales of shares of the Company's capital stock by the Promoters. In addition, until the holders of the preferred stock recovered (by sale or other disposition) their aggregate investment amount paid for all shares of preferred stock purchased from the Company, the Promoters were prohibited from selling more than 20% of their

collective holdings of capital stock of the Company. The Stock Restriction Agreement terminated on December 31, 1997, and the Voting Agreement will terminate upon the consummation of this offering.

SEPARATION AGREEMENTS

On February 20, 1997, the Company entered into a Separation Agreement with Mark L. de Naray, the former President and Chief Executive Officer and a former director of the Company, pursuant to which the Company, among other things, loaned Mr. de Naray an aggregate of $761,550 in addition to the $50,000 Mr. de Naray previously owed the Company to provide Mr. de Naray funds to exercise his options. On July 13, 1998, the Company entered into a Separation Agreement with John D. Watson, the former Senior Vice President of Corporate Marketing of the Company. For a discussion of these agreements, see "Management--Separation Agreements."

CONSULTING AGREEMENTS

In April 1996, the Company entered into a Consulting Agreement with Ervin R. Shames, Chairman of the Board, pursuant to which Mr. Shames renders certain consulting services to the Company. See "Management--Director Compensation" and "--Employment and Consulting Agreements."

In July 1997, the Company entered into a Letter Agreement with Richard Clayton, a former director of the Company, pursuant to which Mr. Clayton rendered certain consulting services to the Company through the end of March 1998 in connection with the establishment by the Company of several leased departments within larger retail stores. Under the Letter Agreement, Mr. Clayton received a consulting fee equal to $197,000 paid in eight monthly installments and was granted an option to purchase 14,000 shares of Common Stock at an exercise price of $7.50 per share.

For a discussion of the employment agreements entered into by the Company and certain Named Executive Officers, see "Management--Employment and Consulting Agreements."

GE FINANCING AND RESTRUCTURING OF GE WARRANTS

On March 27, 1997, the Company entered into a Purchase Agreement (the "GE Purchase Agreement") with General Electric Capital Corporation ("GECC"), pursuant to which the Company issued to GECC a senior subordinated promissory note in the principal amount of $15.0 million (the "GE Note"). Interest on the GE Note accrues at a rate equal to 11% per year and is payable quarterly in arrears. The outstanding principal on the GE Note is due on or before March 31, 2003. Under the terms of the GE Purchase Agreement, the Company is required to comply with certain affirmative and financial covenants so long as the GE Note remains outstanding, including without limitation, the delivery of certain financial and business information and maintaining a minimum ratio of EBITDA to fixed charges, a minimum ratio of total indebtedness to EBITDA and a minimum consolidated net worth. In addition, the Company is required to comply with certain negative covenants so long as the GE Note remains outstanding, including without limitation, refraining from consummating certain acquisitions, investments, and sales of Company assets, issuing additional shares of preferred stock, incurring additional indebtedness and permitting liens on any of its assets. The Company intends to repay the GE Note in full with a portion of the net proceeds of this offering. See "Use of Proceeds."

In addition to the GE Note, the Company issued to GECC a Series A Warrant (the "Series A Warrant") to purchase 1,100,000 shares of Common Stock exercisable through March 31, 2005 at an exercise price of $10.50 and a Series B Warrant (the "Series B Warrant") providing contingent rights to purchase up to 1,000,000 shares of Common Stock at an exercise price of $.01 after May 1, 1999, subject to adjustment and cancellation upon the occurrence of certain events. Pursuant to an amendment to the GE Purchase Agreement effective as of March 31, 1998, the Company and GECC restructured these warrants by combining them into one Series A Warrant to purchase 1,309,583 shares of Common Stock at an exercise price of $8.82. GECC has certain demand and incidental registration rights covering the shares of

Common Stock issuable upon exercise of the new Series A Warrant. See "Description of Securities-- Registration Rights--General Electric Warrant."

GECC, through its affiliation with Monogram Credit Card Bank of Georgia (the "Bank"), has an indirect interest in the Company's consumer credit arrangements with the Bank. Under these arrangements, the Bank offers to the Company's qualified customers an unsecured revolving credit arrangement to finance purchases from the Company. For all purchases financed under these arrangements, the Bank pays the Company an amount equal to the total amount of purchases net of promotional related discounts and less amounts retained for returned products and limited recourse on bad debts. The Bank had retained $3.9 million and $10.1 million as of January 3, 1998 and October 3, 1998, respectively. See "Business--Consumer Credit Arrangements."

All future transactions, including any loans from the Company to its officers, directors, principal shareholders or affiliates, will be on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information known to the Company with respect to beneficial ownership of the Common Stock as of October 3, 1998 and as adjusted to reflect the sale of the shares of Common Stock offered hereby, for (i) each person who is known by the Company to own beneficially more than 5% of the Common Stock, (ii) each of the Named Executive Officers, (iii) each of the Company's directors, (iv) all directors and executive officers as a group, and (v) each Selling Shareholder.

	SHARES BENEFICIALLY OWNED PRIOR TO THE OFFERING			SHARES BENEFICIALLY OWNED AFTER THE OFFERING(1)	
NAME	NUMBER	PERCENT	NUMBER OF SHARES BEING OFFERED	NUMBER	PERCENT
St. Paul Venture Capital, Inc.(2)	5,223,022	34.1%	--	5,223,022	28.8%
Consumer Venture Partners(3)	2,237,113	14.7	--	2,237,113	12.4
Apex Investment Fund, L.P. and The Productivity Fund II, L.P.(4)	1,329,344	8.7	229,769	1,099,575	6.1
General Electric Capital Corporation(5)	1,309,583	7.9	102,598	1,206,985	6.2
Norwest Venture Capital(6)	1,061,616	6.9	111,334	950,282	5.2
Cherry Tree Ventures IV Limited Partnership(7)	828,690	5.4	116,468	712,222	3.9
H. Robert Hawthorne(8)	179,777	1.2	--	179,777	*
Mark L. de Naray(9)	552,000	3.6	140,545	411,455	2.3
Daniel J. McAthie(10)	146,545	*	--	146,545	*
Charles E. Dorsey(11)	110,420	*	7,160	103,260	*
John D. Watson(12)	51,522	*	--	51,522	*
Gregory T. Kliner(13)	79,038	*	8,138	70,900	*
Ervin R. Shames(14)	197,228	1.3	--	197,228	1.1
Thomas J. Albani	37,595	*	--	37,595	*
Patrick A. Hopf(15)	5,232,341	34.2	--	5,232,341	28.9
Christopher P. Kirchen(16)	2,237,113	14.7	--	2,237,113	12.4
David T. Kollat(17)	37,595	*	--	37,595	*
Kenneth A. Macke(18)	89,334	*	--	89,334	*
Jean-Michel Valette(19)	206,989	1.4	--	206,989	1.1
All directors and executive officers as a group (12 persons)(20)	8,622,586	54.5%	15,298	8,607,288	46.2%
Other Selling Shareholders:					
Alex. Brown & Sons Employees Venture Fund LP(21)	27,809	*	5,281	22,528	*
Theodore H. Ashford(22)	68,506	*	12,359	56,147	*
Robert D. Auritt	37,500	*	3,952	33,548	*
Bayview Investors, Ltd.(23)	27,809	*	3,513	24,296	*
Richard M. Downs(24)	20,666	*	2,037	18,629	*
James D. Gaboury(25)	19,760	*	705	19,055	*
Doug Hickman(26)	3,267	*	544	2,723	*
Brent T. Hutton(27)	86,311	*	2,078	84,233	*
Karen Jones(28)	25,627	*	3,512	22,115	*
Terral Jordan(29)	3,267	*	412	2,855	*
KCB BV, L.P.	750,843	4.9	158,291	592,552	3.3
Douglas Keefer	15,000	*	125	14,875	*
Erwin A. Kelen(30)	13,209	*	1,000	12,209	*
Richard Knase	9,500	*	1,052	8,448	*

NAME	SHARES BENEFICIALLY OWNED PRIOR TO THE OFFERING		NUMBER OF SHARES BEING OFFERED	SHARES BENEFICIALLY OWNED AFTER THE OFFERING(1)	
	NUMBER	PERCENT		NUMBER	PERCENT
Marquette Venture Partners(31).....	357,873	2.3	61,417	296,456	1.6
Doug Poole.....	9,500	*	3,160	6,340	*
J.P. Poole.....	350,000	2.3	70,272	279,728	1.6
Suzanne Puerzer(32).....	12,954	*	350	12,604	*
John Sculley(33).....	153,252	1.0	21,589	131,663	*
Dewey K. Shay(34).....	3,267	*	1,650	1,617	*
Robert A. Walker(35).....	477,500	3.1	89,596	387,904	2.1
Kenneth H. Walker(36).....	58,481	*	41,093	17,388	*

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* Less than one percent.

(1) Except as otherwise indicated, the persons named in the table, based on information provided by such persons, have sole voting and sole investment power with respect to all shares of Common Stock shown as beneficially owned by them. Shares of Common Stock subject to options or warrants currently exercisable or exercisable within 60 days of October 3, 1998 are deemed outstanding for computing the percentage of the person or group holding such options or warrants but are not deemed outstanding for computing the percentage of any other person.

(2) Includes 4,837,007 shares held by St. Paul Fire and Marine Insurance Company, 318,017 shares held by St. Paul Venture Capital IV, L.L.C. and 275 shares held by St. Paul Venture Capital Affiliates Fund I, L.L.C. Includes 59,769 shares issuable upon exercise of outstanding warrants held by St. Paul Fire and Marine Insurance Company and 7,954 shares issuable upon exercise of outstanding warrants held by St. Paul Venture Capital IV, L.L.C. St. Paul Venture Capital, Inc. is an affiliate of St. Paul Fire and Marine Insurance Company and the manager of St. Paul Venture Capital IV, L.L.C. and St. Paul Venture Capital Affiliates Fund I, L.L.C. Patrick A. Hopf, a director of the Company, is the Vice President of St. Paul Fire and Marine Insurance Company, the President of St. Paul Venture Capital, Inc. and the Managing General Partner of St. Paul Venture Capital IV, L.L.C. Does not include shares held of record by Mr. Hopf. See note (15) below. The address of St. Paul Venture Capital, Inc. is 8500 Normandale Lake Boulevard, Suite 1940, Bloomington, Minnesota 55437.

(3) Includes 274,312 shares held by Consumer Venture Partners I, L.P. and 1,962,801 shares held by Consumer Venture Partners II, L.P. Christopher P. Kirchen, a director of the Company, is the general partner of Consumer Venture Associates L.P., which is the general partner of Consumer Venture Partners I, L.P. Mr. Kirchen is also the general partner of Consumer Venture Associates II, L.P., which is the general partner of Consumer Venture Partners II, L.P. Does not include any shares held of record by Mr. Kirchen. See note (15) below. The address of Consumer Venture Partners is Three Pickwick Plaza, Greenwich, Connecticut 06830.

(4) Includes 918,609 shares held of record by Apex Investment Fund, L.P. ("Apex") and 394,698 shares held of record by The Productivity Fund II, L.P. ("TPF"). Also includes 11,102 and 4,935 shares issuable upon exercise of outstanding warrants held by Apex and TPF, respectively. Apex intends to sell 160,734 shares in the offering and will beneficially own 768,977 shares after the offering. TPF intends to sell 69,035 shares in the offering and will beneficially own 330,598 shares after the offering. First Analysis Corporation is a general partner of each of the general partners of Apex and TPF and may be deemed to be the beneficial owner of shares held by Apex and TPF. First Analysis Corporation disclaims beneficial ownership of such shares, except to the extent of its pecuniary interest therein. James A. Johnson, George M. Middlemas and Paul J. Renze, by virtue of their affiliation with Apex, may be deemed to be the beneficial owner of shares

held by Apex; however, they disclaim beneficial ownership of such shares, except to the extent of their individual pecuniary interest therein. Bret R.

Maxwell, by virtue of his affiliation with TPF, may be deemed to be the beneficial owner of shares held by TPF; however, he disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein. The address of Apex and TPF is 233 South Wacker Drive, Suite 9500, Chicago, Illinois 60606.

(5) Includes 1,309,583 shares issuable upon exercise of outstanding warrants. The address of General Electric Capital Corporation is 260 Long Ridge Road, Stamford, Connecticut 06927.

(6) Includes 697,053 shares held by Norwest Equity Partners IV and 306,130 shares held by Norwest Equity Partners V. Also includes 58,433 shares issuable upon exercise of outstanding warrants held by Norwest Equity Partners V. Norwest Equity Partners IV intends to sell 70,272 shares in the offering and will beneficially own 626,781 shares after the offering. Norwest Equity Partners V intends to sell 41,062 shares in the offering and will beneficially own 323,501 shares after the offering. Itasca Partners is the general partner of Norwest Equity Partners IV and may be deemed to be the beneficial owner of shares held by Norwest Equity Partners IV. Itasca Partners V is the general partner of Norwest Equity Partners V and may be deemed to be the beneficial owner of shares held by Norwest Equity Partners V. John E. Lindahl and George J. Still, Jr. are each managing general partners of, and John P. Whaley is the managing administrative partner of, Itasca Partners and Itasca Partners V, respectively. By virtue of their affiliation with Norwest Equity Partners IV and Norwest Equity Partners V resulting from their positions with Itasca Partners and Itasca Partners V, each may be deemed to be the beneficial owner of shares held by Norwest Equity Partners IV and Norwest Equity Partners V; however they disclaim beneficial ownership of such shares, except to the extent of their pecuniary interest therein. The address of Norwest Venture Capital and the other named individuals is 2800 Piper Tower, 222 South Ninth Street, Minneapolis, Minnesota 55402.

(7) The address of Cherry Tree Ventures IV Limited Partnership is 1400 Northland Plaza, 3800 West 80th Street, Minneapolis, Minnesota 55431.

(8) Includes 67,777 shares issuable upon exercise of outstanding options. Also includes 12,000 shares held by Mr. Hawthorne's children, as to which Mr. Hawthorne disclaims any beneficial interest.

(9) Includes 37,000 shares held by Mr. de Naray's spouse and children, as to which Mr. de Naray disclaims any beneficial ownership. Mr. de Naray is a former director and executive officer of the Company.

(10) Includes 60,542 shares issuable upon exercise of outstanding options and 4,000 shares issuable upon exercise of outstanding warrants. Also includes 29,097 shares held by Mr. McAthie's spouse, as to which Mr. McAthie shares voting and investment power.

(11) Includes 4,664 shares issuable upon exercise of outstanding options. Also includes 99,156 shares jointly held by Mr. Dorsey and his spouse, and an aggregate of 5,000 held by Mr. Dorsey's children, as to which Mr. Dorsey shares voting and investment power. Mr. Dorsey is currently an executive officer of the Company.

(12) Includes 2,222 shares held by Mr. Watson's wife, as to which Mr. Watson

shares voting and investment power.

(13) Includes 79,038 shares issuable upon exercise of outstanding options. Mr. Kliner is currently an executive officer of the Company.

(14) Includes 78,228 shares issuable upon exercise of outstanding options held by Mr. Shames and 100,000 shares issuable upon exercise of outstanding options held by Louise G. Shames, Trustee of the Ervin R. Shames Estate Reduction Family Trust U/A dated October 30, 1997.

(15) Includes 190 shares issuable upon exercise of outstanding warrants. Also includes an aggregate of 1,129 shares held by Mr. Hopf's spouse and children. Also include shares beneficially owned by St. Paul Fire and Marine Insurance Company, St. Paul Venture Capital Affiliates Fund I, LLC and

St. Paul Venture Capital IV, L.L.C. Mr. Hopf has the same business address as St. Paul Venture Capital. See note (2) above.

(16) Includes shares beneficially owned by Consumer Venture Partners I, L.P. and Consumer Venture Partners II, L.P., as to which Mr. Kirchen shares voting and investment power. Mr. Kirchen has the same business address as Consumer Venture Partners. See note (3) above.

(17) Includes 37,500 shares issuable upon exercise of outstanding options.

(18) Includes 12,500 shares issuable upon exercise of outstanding options. Also includes 74,111 shares held by Macke Limited Partnership and 2,723 shares issuable upon exercise of outstanding warrants held by Macke Limited Partnership, of which Mr. Macke is the general partner.

(19) Includes 200,396 shares held by H&Q Select Comfort Investors, L.P., a related party to Hambrecht & Quist LLC. Also includes 5,940 shares issuable upon exercise of outstanding warrants held by H&Q Select Comfort Investors, L.P. Mr. Valette by virtue of his affiliation with H&Q Select Comfort Investors, L.P. may be deemed to be the beneficial owner of such shares; however, he disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.

(20) Includes an aggregate of 589,436 shares issuable upon exercise of outstanding options and warrants held by officers, directors and their affiliates. Also includes all shares beneficially owned by St. Paul Venture Capital, Inc. and Consumer Venture Partners. See notes (2) and (3) above.

(21) Includes 4,000 shares issuable upon the exercise of outstanding warrants.

(22) Includes 470 shares issuable upon the exercise of outstanding warrants.

(23) Includes 4,000 shares issuable upon the exercise of outstanding warrants.

(24) Includes 20,666 shares issuable upon the exercise of outstanding options. Mr. Downs is currently an employee of the Company.

(25) Includes 10,693 shares issuable upon the exercise of outstanding options. Mr. Gaboury is currently an employee of the Company.

(26) Includes 470 shares issuable upon the exercise of outstanding warrants.

(27) Mr. Hutton is a former executive officer of the Company.

(28) Includes 4,179 shares issuable upon the exercise of outstanding options. Ms. Jones is currently an employee of the Company.

(29) Includes 470 shares issuable upon the exercise of outstanding warrants.

(30) Includes 1,900 shares issuable upon the exercise of outstanding warrants.

(31) Includes 297,627 shares held of record by Marquette Venture Partners II, L.P. ("MVP") and 8,503 shares held of record by MVP II Affiliates Fund, L.P. ("MVP Affiliates"). Also includes 50,306 and 1,437 shares issuable upon exercise of outstanding warrants held by MVP and MVP Affiliates, respectively. MVP intends to sell 59,731 shares in the offering and will beneficially own 288,202 shares after the offering. MVP Affiliates intends to sell 1,686 shares in the offering and will beneficially own 8,254 shares after the offering.

(32) Includes 8,954 shares issuable upon the exercise of outstanding options. Ms. Puerzer is currently an employee of the Company.

(33) Includes 12,500 shares issuable upon the exercise of outstanding options. Also includes 10,000 shares held by Sculley Brothers LLC and 2,000 shares held by Sculley Investment Ltd. Partnership. Mr. Sculley is a former director of the Company.

(34) Includes 470 shares issuable upon the exercise of outstanding warrants.

(35) Includes 218,750 shares held by Mr. Walker's spouse.

(36) Includes 41,814 shares held by Mr. Walker's IRA.

DESCRIPTION OF CAPITAL STOCK

Assuming the conversion of all outstanding shares of preferred stock into Common Stock and the filing of the Articles upon completion of this offering, the authorized capital stock of the Company will consist of 95,000,000 shares of Common Stock and 5,000,000 shares of Undesignated Preferred Stock. The following

summary of the terms and provisions of the Company's capital stock does not purport to be complete and is qualified in its entirety by reference to the Company's Articles and applicable law.

COMMON STOCK

As of October 3, 1998, there were 15,245,094 shares of Common Stock issued and outstanding, held of record by 180 shareholders. The holders of Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders, and are not entitled to cumulate votes. Subject to preferences that may be applicable to any outstanding shares of Undesignated Preferred Stock, holders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. Upon liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets that are legally available for distribution after payment of all debts and other liabilities and subject to the prior rights of any holders of the outstanding shares of Undesignated Preferred Stock. The holders of Common Stock have no preemptive, subscription, redemption, sinking fund or conversion rights. All outstanding shares of Common Stock are fully paid and nonassessable, and the shares of Common Stock to be issued upon completion of this offering will be fully paid and nonassessable.

UNDESIGNATED PREFERRED STOCK

As of the date of this Prospectus, no shares of Undesignated Preferred Stock were issued and outstanding. Under Minnesota law, no action by the Company's shareholders is necessary, and only action by the Board of Directors is required, to authorize the issuance of any of the shares of Undesignated Preferred Stock. Subject to certain limitations, the Board of Directors is empowered to establish, and to designate the name of each class or series of the shares of Undesignated Preferred Stock and to set the terms of such shares (including terms with respect to redemption, sinking fund, dividend, liquidation, preemptive conversion and voting rights and preferences). The Board of Directors can issue shares of such class or series to, among other individuals, the holders of another class or series of Undesignated Preferred Stock or to the holders of the Common Stock. Accordingly, the Board of Directors, without shareholder approval, could issue Undesignated Preferred Stock with dividend, voting and conversion rights which could adversely affect the rights of the holders of Common Stock. The Undesignated Preferred Stock may have the effect of discouraging an attempt, through acquisition of a substantial number of shares of the Common Stock, to acquire control of the Company with a view to effecting a merger, sale or exchange of assets or a similar transaction. The Company has no present plans to issue Undesignated Preferred Stock.

OPTIONS AND WARRANTS

As of October 3, 1998, the Company had outstanding options to purchase an aggregate of 1,660,527 shares of Common Stock at a weighted average exercise price of $6.38 per share and warrants to purchase an aggregate of 1,586,951 shares of Common Stock at a weighted average exercise price of $8.28 per share. All outstanding options and warrants provide for antidilution adjustments in the event of certain mergers, consolidations, reorganizations, recapitalizations, stock dividends, stock splits or other changes in the corporate structure of the Company. Certain of the outstanding warrants provide for antidilution adjustments if the Company sells any shares of capital stock or securities exercisable for or convertible into shares of capital stock for less than $5.25 per share. Holders of the outstanding warrants have certain demand and incidental registration rights with respect to the shares issuable upon exercise of the warrants. See "--Registration Rights."

REGISTRATION RIGHTS

AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT

The holders of 12,255,209 shares of Common Stock and warrants to purchase an aggregate of 1,552,536 shares of Common Stock (the "Registrable Securities") or their transferees are entitled to certain rights with respect to the

registration of such shares under the Securities Act pursuant to the terms of the Amended and Restated Registration Rights Agreement, dated as of December 28, 1995, as amended (the "Registration Rights Agreement"), among the Company and the holders of Registrable Securities. If at any time the holders of specified amounts of Registrable Securities request that the Company file a registration statement covering the Registrable Securities, the Company will use its best efforts to cause such securities to be registered. The Company is not required to file more than two registration statements, other than on Form S-2 or Form S-3, pursuant to such demand rights, or more than one registration statement, other than on Form S-2 or Form S-3, in any twelve-month period. The holders of specified amounts of Registrable Securities also have the right to require the Company to file a registration statement on Form S-2 or Form S-3 an unlimited number of times, provided that the Company is not required to register any Registrable Securities which are freely transferable under the provisions of Rule 144(k) under the Securities Act. In addition, the holders of Registrable Securities are entitled to have Registrable Securities included in a registration statement filed on behalf of the Company provided that the Company is not required to include any Registrable Securities which are freely transferable under the provisions of Rule 144(k) under the Securities Act. In any underwritten public offering, the foregoing registration rights are limited to the extent that the managing underwriter has the right (i) to limit the number of Registrable Securities to be included in the registration statement, (ii) to prohibit the sale of any securities of the Company other than those registered and included in the underwritten offering for a period of 180 days, and (iii) to require holders of Registrable Securities not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company (other than the securities included in the registration) without the prior written consent of such underwriters for a period up to 180 days from the effective date of such registration. The Company will bear the expenses of registration of any of the Registrable Securities, except for any underwritten discounts and commissions which will be borne by the participating shareholders in proportion to the number of shares sold and except for any expenses incurred in connection with a registration statement on Form S-2 or Form S-3 filed at the request of holders of Registrable Securities the minimum offering of which is less than $1.0 million. The registration rights granted under the Registration Rights Agreement terminate as to any Registrable Securities when such Registrable Securities have been effectively registered and sold by the holder thereof or when such Registrable Securities have been sold pursuant to Rule 144 under the Securities Act. The foregoing registration rights have been waived with respect to this offering.

GENERAL ELECTRIC WARRANT

General Electric Capital Corporation ("GECC") possesses certain rights to register of up to 1,309,583 shares of Common Stock (the "GE Registrable Securities") issuable upon exercise of a warrant granted in connection with the Company's March 1997 debt financing. Commencing six months following the consummation of this offering (assuming this offering constitutes a Qualified IPO, as defined below), holders of an aggregate of 30% or more of the GE Registrable Securities or holders of GE Registrable Securities having a minimum anticipated aggregate offering price of at least $5.0 million, may request that the Company register the GE Registrable Securities under the Securities Act, subject to the limitations below. A "Qualified IPO" means a sale of the Company's Common Stock pursuant to an initial public offering registered under the Securities Act which yields net proceeds to the Company (after underwriting discounts and commissions) of at least $20.0 million and which results in a post-offering valuation of the Company's total equity of at least $200.0 million based on the per share offering price and the number of issued and outstanding shares of the Company's Common Stock. The Company is not required to file more than two registration statements pursuant to such demand rights unless the Company is eligible to file a

registration statement on Form S-3 in which event such holders are entitled to an unlimited number of such registrations. In addition, the holders of GE Registrable Securities are entitled to have GE Registrable Securities included in a registration statement filed on behalf of the Company (other than a registration statement on Form S-4 and Form S-8); provided, that the Company is not required to include any GE Registrable Securities which are transferable without registration under the Securities Act. The Company is not required to register GE Registrable Securities pursuant to a holder's demand right, if the

Company has had a registration statement under which such holder had a right to have its GE Registrable Securities included pursuant to its demand and incidental rights declared effective within one year prior to the date of the request pursuant to its demand rights; provided, however, that if any holder elected to have GE Registrable Securities included under such registration statement but some or all of such securities were excluded pursuant to underwriter's advice, then such one-year period is reduced to six months. The Company will bear the expenses of registration of any of the GE Registrable Securities, except for any fees, discounts or commissions to any underwriter or any fees or disbursements of counsel for any underwriter and all expenses incurred in connection with any amendment or supplement to the registration statement or prospectus filed more than 180 days after the effective date of such registration statement because any holder of GE Registrable Securities has not sold such GE Registrable Securities requested to be registered. Such registration rights terminate when such GE Registrable Securities have been effectively registered under the Securities Act and sold or when the Company has received an opinion of counsel that such shares may be transferred without registration under the Securities Act.

PROVISIONS WITH POTENTIAL ANTI-TAKEOVER EFFECT

The Company is subject to the provisions of Sections 302A.671 and 302A.673 of the Minnesota Business Corporation Act. These anti-takeover provisions may eventually operate to deny shareholders the receipt of a premium on their Common Stock and may also have a depressive effect on the market price of the Company's Common Stock. In general, Section 302A.671 provides that the shares of a corporation acquired in a "control share acquisition" have no voting rights unless voting rights are approved by the shareholders in a prescribed manner. A "control share acquisition" is defined as an acquisition of beneficial ownership of shares that would, when added to all other shares beneficially owned by the acquiring person, entitle the acquiring person to have voting power of 20% or more in the election of directors. Section 302A.673 prohibits a public corporation from engaging in a "business combination" with an "interested shareholder" for a period of four years after the date of the transaction in which the person became an interested shareholder, unless the business combination is approved in a prescribed manner. A "business combination" includes mergers, asset sales and other transactions. An "interested shareholder" is a person who is the beneficial owner, of 10% or more of the corporation's voting stock. Reference is made to the detailed terms of Sections 302A.671 and 302A.673 of the Minnesota Business Corporation Act.

The Company's Articles provide for a classified Board of Directors serving staggered terms of three years. In addition, shareholders are not entitled to cumulative voting in the election of directors and may not remove a director without cause. The Articles also require the approval of two-thirds of the outstanding voting power of the Company entitled to vote in the event of any sale or merger of the Company. The authorization of Undesignated Preferred Stock makes it possible for the Board of Directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of the Company. The foregoing provisions of the Company's Articles and the Minnesota Business Corporation Act may have the effect of deterring hostile takeovers or delaying changes in control of management of the Company.

LIMITATION ON LIABILITY OF DIRECTORS AND INDEMNIFICATION

The Company's Articles limit the liability of its directors to the fullest extent permitted by the Minnesota Business Corporation Act. Specifically, directors of the Company will not be personally liable

for monetary damages for breach of fiduciary duty as directors, except liability for (i) any breach of the duty of loyalty to the Company or its shareholders, (ii) acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) dividends or other distributions of corporate assets that are in contravention of certain statutory or contractual restrictions, (iv) violations of certain Minnesota securities laws, or (v) any transaction from which the director derives an improper personal benefit. Liability under federal securities law is not limited by the Restated Articles.

The Company also maintains a directors and officers insurance policy pursuant to which directors and officers of the Company are insured against liability for certain actions in their capacity as directors and officers.

The Minnesota Business Corporation Act requires that the Company indemnify any director, officer or employee made or threatened to be made a party to a proceeding, by reason of the former or present official capacity of the person, against judgments, penalties, fines, settlements and reasonable expenses incurred in connection with the proceeding if certain statutory standards are met. "Proceeding" means a threatened, pending or completed civil, criminal, administrative, arbitration or investigative proceeding, including a derivative action in the name of the Company. Reference is made to the detailed terms of the Minnesota indemnification statute, Section 302A.521 of the Minnesota Business Corporation Act, for a complete statement of such indemnification rights. The Company's Articles also require the Company to provide indemnification to the fullest extent of the Minnesota indemnification statute.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company is aware that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is Norwest Bank Minnesota, N.A.

SHARES ELIGIBLE FOR FUTURE SALE

Upon the consummation of this offering, the Company will have 18,045,094 shares of Common Stock outstanding, assuming no exercise of options or warrants after October 3, 1998. Of these shares, the 4,000,000 shares sold in this offering will be freely tradable without restriction under the Securities Act, unless purchased by an "affiliate" of the Company, as that term is defined in Rule 144 under the Securities Act. The remaining 14,045,094 shares of Common Stock held by existing shareholders are "restricted securities" as defined in Rule 144 and may be sold in the public market only if registered, or pursuant to an exemption from registration such as Rule 144, 144(k) or 701 under the Securities Act. Holders of an aggregate of 12,215,075 shares of Common Stock, have entered into lock-up agreements under which they have agreed that they will not, without the prior written consent of Hambrecht & Quist LLC, offer, sell or otherwise dispose of, any shares of Common Stock, options or warrants to acquire shares of Common Stock or securities exchangeable for or convertible into shares of Common Stock owned by them during the 180-day period following the date of this Prospectus. Hambrecht & Quist LLC may, in its sole discretion at any time without notice, release any portion of the shares subject to the lock-up agreements during the 180-day period. Upon expiration of these agreements, 12,120,553 shares of Common Stock will be eligible for immediate resale in the public market subject to the limitations of Rule 144. Of such shares, approximately 4,067,374 will be eligible for resale in the public market pursuant to Rule 144(k) without regard to the volume and manner of sale limitations in Rule 144. Of the 1,830,019 shares not subject to lock-up agreements, 1,552,582 shares will be eligible for immediate resale in the public market pursuant to Rule 144(k) and the remainder will be eligible for resale in the public market subject to the limitations of Rule 144.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated), including an affiliate, who has beneficially owned shares for at least one year, within any three-month period commencing 90 days after the date of this Prospectus, may sell a number of shares that does not exceed the greater of (i) one percent of the number of shares of Common Stock then outstanding (approximately 180,450 shares immediately after this offering) or (ii) the average weekly trading volume of the Common Stock during the four calendar weeks preceding such sale. Sales under Rule 144 are generally subject to certain manner of sale provisions and notice requirements and to the availability of current public information about the Company. Under Rule 144(k), a person who is not deemed to have been an affiliate of the Company at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell such shares without having to comply with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Under Rule 701 under the Securities Act, persons who purchase shares upon exercise of options granted prior to the effective date of this offering are entitled to sell such shares 90 days after

the effective date of this offering in reliance on Rule 144, without having to comply with the holding period requirements of Rule 144 and, in the case of non-affiliates, without having to comply with the public information, volume limitation or notice provisions of Rule 144.

As of October 3, 1998, options to purchase 1,660,527 shares of Common Stock were outstanding under the Company's option plans. The Company expects to grant options to purchase an aggregate of up to 125,000 shares of Common Stock in connection with this offering. Options covering an aggregate of 475,500 shares are subject to the lock-up agreements described above. Approximately 30 days after the completion of this offering, the Company intends to file Registration Statements on Form S-8 covering shares issuable under the Company's 1990 Omnibus Stock Option Plan and 1997 Stock Incentive Plan (including shares subject to then outstanding options), thus permitting the resale of such shares in the public market without restrictions under the Securities Act after expiration of the applicable lock-up agreements. In addition, as of October 3, 1998, warrants to purchase 1,586,951 shares of Common Stock were outstanding.

A total of 11,577,652 of the shares outstanding immediately following the completion of this offering and the holders of warrants to purchase 1,408,876 shares of Common Stock will be entitled to registration

rights with respect to such shares. The number of shares sold in the public market could increase if such rights are exercisable.

Because there has been no public market for shares of the Company's Common Stock, the Company is unable to predict the effect that sales made under Rule 144, pursuant to future registration statements, or otherwise, may have on any then prevailing market price for shares of the Common Stock. Nevertheless, sales of a substantial amount of Common Stock in the public market, or the perception that such sales could occur, could adversely affect market prices.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters named below, through their Representatives, Hambrecht & Quist LLC, BancBoston Robertson Stephens Inc. and Piper Jaffray Inc. have severally agreed to purchase from the Company and the Selling Shareholders the following respective number of shares of Common Stock:

NAME	NUMBER OF SHARES
Hambrecht & Quist LLC.....	
BancBoston Robertson Stephens Inc.....	
Piper Jaffray Inc.....	
Total.....	

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, including the absence of any material adverse change in the Company's business and the receipt of certain certificates, opinions and letters from the Company, its counsel and independent auditors. The nature of the Underwriters' obligation is such that they are committed to purchase all shares of Common Stock offered hereby if any of such shares are purchased.

The Underwriters propose to offer the shares of Common Stock directly to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess

of $ per share. The Underwriters may allow and such dealers may reallow a concession not in excess of $ per share to certain other dealers. After the initial public offering of the shares, the offering price and other selling terms may be changed by the Representatives of the Underwriters. The Representatives have informed the Company that the Underwriters do not intend to confirm discretionary sales in excess of 5% of the Common Stock offered hereby.

The Selling Shareholders have granted to the Underwriters an option, exercisable no later than 30 days after the date of this Prospectus, to purchase up to 600,000 additional shares of Common Stock at the initial public offering price, less the underwriting discount, set forth on the cover page of this Prospectus. To the extent that the Underwriters exercise this option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage thereof which the number of shares of Common Stock to be purchased by it shown in the above table bears to the total number of shares of Common Stock offered hereby. The Selling Shareholders will be obligated, pursuant to the option, to sell shares to the Underwriters to the extent the option is exercised. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of shares of Common Stock offered hereby.

The offering of the shares are offered by the several Underwriters subject to prior sale, receipt and acceptance by them and subject to the right of the Underwriters to reject any order in whole or in part and certain other conditions.

The Company and the Selling Shareholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the Underwriters may be required to make in respect thereof.

The Selling Shareholders and certain other shareholders of the Company, including the executive officers and directors, who will own in the aggregate 12,215,075 shares of Common Stock after the offering, have agreed that they will not, without the prior written consent of Hambrecht & Quist LLC, offer, sell or otherwise dispose of any shares of Common Stock, options or warrants to acquire shares of

Common Stock or securities exchangeable for or convertible into shares of Common Stock owned by them during the 180-day period following the date of this Prospectus. The Company has agreed that it will not, without the prior written consent of Hambrecht & Quist LLC, offer, sell or otherwise dispose of any shares of Common Stock, options or warrants to acquire shares of Common Stock or securities exchangeable for or convertible into shares of Common Stock during the 180-day period following the date of this Prospectus, except that the Company may issue shares upon the exercise of options and warrants granted prior to the date hereof, and may grant additional options under its stock option plans, subject to the 180-day period described above.

Prior to the offering, there has been no public market for the Common Stock. The initial public offering price for the Common Stock will be determined by negotiation among the Company, the Selling Shareholders and the Representatives. Among the factors to be considered in determining the initial public offering price are prevailing market and economic conditions, revenues and earnings of the Company, market valuations of other companies engaged in activities similar to the Company's business operations, the Company's management and other factors deemed relevant. The estimated initial public offering price range set forth on the cover of this preliminary prospectus is subject to change as a result of market conditions and other factors.

Certain persons participating in the offering may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Common Stock at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids, effecting syndicate covering transactions or imposing penalty bids. A stabilizing bid means the placing of any bid or effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of the Common Stock. A syndicate covering transaction means the placing of any bid on behalf of the underwriting syndicate or the effecting of any purchase to reduce a short position created in connection with

the offering. A penalty bid means an arrangement that permits the Underwriters to reclaim a selling concession from a syndicate member in connection with the offering when shares of Common Stock sold by the syndicate member are purchased in syndicate covering transactions. Such transactions may be effected on the Nasdaq National Market, in the over-the-counter market, or otherwise. Such stabilizing, if commenced, may be discounted at any time.

H&Q Select Comfort Investors, L.P. and H&Q London Ventures, related parties to Hambrecht & Quist LLC, one of the Representatives, own in the aggregate 400,792 shares of the Company's Common Stock and warrants to purchase an aggregate of 11,880 shares of the Company's Company's Common Stock.

LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed upon for the Company by Oppenheimer Wolff & Donnelly LLP, Minneapolis, Minnesota. Mark A. Kimball, a partner in the law firm of Oppenheimer Wolff & Donnelly LLP, beneficially owns 1,000 shares of Common Stock. Orrick, Herrington & Sutcliffe LLP, San Francisco, California will pass upon certain legal matters for the Underwriters.

EXPERTS

The consolidated financial statements of Select Comfort Corporation as of December 28, 1996, January 3, 1998 and October 3, 1998, and for each of the years in the three-year period ended January 3, 1998, and for the nine-month period ended October 3, 1998 have been included herein and in the registration statement in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

Certain information concerning the fair market value of a put warrant held by GECC has been prepared and included in the consolidated financial statements of the Company set forth herein in reliance upon the reports of Houlihan Valuation Advisors and upon the authority of said firm as experts in valuation matters.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission"), a Registration Statement on Form S-1 under the Securities Act with respect to the shares of Common Stock offered hereby. This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and to the exhibits and schedules filed therewith. Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement and the exhibits and schedules thereto may be inspected without charge at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington D.C. 20549, and at the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511 and 7 World Trade Center, Suite 1300, New York, New York 10048. Copies of all or any part of the Registration Statement may be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Commission maintains a Web site (http://www.sec.gov) that contains reports, proxy and information statements, and other information that has been or will be filed by the Company.

The Company intends to furnish holders of the Common Stock with annual reports containing audited financial statements certified by independent auditors, and quarterly reports for each of the first three quarters of each

year containing unaudited financial information.

SELECT COMFORT CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The pro forma consolidated statements of operations data set forth below for the year ended January 3, 1998 and for the nine months ended September 27, 1997 and October 3, 1998 give effect to the offering as if it had occurred on December 29, 1996. The pro forma adjustments are based upon currently available information and certain assumptions that management of the Company believes are reasonable under the circumstances.

SELECT COMFORT CORPORATION AND SUBSIDIARIES

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED JANUARY 3, 1998
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	JANUARY 3, 1998		
	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA
Net sales	$ 184,430	$ --	$ 184,430
Cost of sales	66,629	--	66,629
Gross margin	117,801	--	117,801
Operating expenses:			
Sales and marketing	99,218	--	99,218
General and administrative	16,505	--	16,505
Total operating expenses	115,723	--	115,723
Operating income	2,078	--	2,078
Other income (expense):			
Interest income	682	--	682
Interest expense	(5,234)	3,250(1)	(346)

Other, net	(231)	1,638(2) --	(231)
Other income (expense), net	(4,783)	4,888	105
Income (loss) before income taxes	(2,705)	4,888	2,183
Income tax expense	141	459(2)	600
Net income (loss)	$ (2,846)	$ 4,429	$ 1,583
Cumulative preferred dividends	(900)	900(3)	--
Net income (loss) available to common shareholders	$ (3,746)	$ 5,329	$ 1,583
Net income (loss) per common share, diluted	$ (1.48)		$ 0.09
Weighted average common shares, diluted	2,532	15,754(4)	18,288

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(1) Includes a pro forma adjustment for the elimination of non-cash interest expense associated with a put warrant, the put feature of which will be terminated upon the consummation of this offering.

(2) Includes a pro forma adjustment for the elimination of interest expense associated with the repayment of $15.0 million of the Company's outstanding indebtedness from the proceeds of this offering and related tax effects.

(3) Gives effect to the elimination of cumulative preferred dividends as a result of the conversion of outstanding shares of preferred stock into Common Stock upon the consummation of this offering.

(4) Gives effect to the conversion of all outstanding shares of preferred stock into Common Stock upon the consummation of this offering, the dilutive effect of outstanding options and warrants, and shares to be issued upon the consummation of this offering.

SELECT COMFORT CORPORATION AND SUBSIDIARIES

PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 27, 1997 AND OCTOBER 3, 1998
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	SEPTEMBER 27, 1997			OCTOBER 3, 1998		
	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA
Net sales	$ 126,470	$ --	$ 126,470	$ 178,835	$ --	$ 178,835
Cost of sales	44,886	--	44,886	62,290	--	62,290
Gross margin	81,584	--	81,584	116,545	--	116,545
Operating expenses:						
Sales and marketing	69,476	--	69,476	95,231	--	95,231
General and administrative	11,593	--	11,593	13,932	--	13,932
Total operating expenses	81,069	--	81,069	109,163	--	109,163
Operating income	515	--	515	7,382	--	7,382
Other income (expense):						
Interest income	484	--	484	548		548
Interest expense	(3,251)	1,900(1) 1,092(2)	(259)	(6,995)	5,222(1) 1,638(2)	(135)

Other, net	(256)	--	(256)	--	--	--
Other income (expense), net	(3,023)	2,992	(31)	(6,447)	6,860	413
Income (loss) before income taxes	(2,508)	2,992	484	935	6,860	7,795
Income tax expense	16	306(2)	322	1,348	459(2)	1,807
Net income (loss)	$ (2,524)	$ 2,686	$ 162	$ (413)	$ 6,401	$ 5,988
Cumulative preferred dividends	(675)	675(3)	--	(675)	675(3)	--
Net income (loss) available to common shareholders	$ (3,199)	$ 3,361	$ 162	$ (1,088)	$ 7,076	$ 5,988
Net income (loss) per common share, diluted	$ (1.29)		$ 0.01	$ (0.37)		$ 0.31
Weighted average common shares, diluted	2,488	16,325(4)	18,813	2,924	16,707(4)	19,632

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(1) Includes a pro forma adjustment for the elimination of non-cash interest expense associated with a put warrant, the put feature of which will be terminated upon the consummation of this offering.

(2) Includes a pro forma adjustment for the elimination of interest expense associated with the repayment of $15.0 million of the Company's outstanding indebtedness from the proceeds of this offering and related tax effects.

(3) Gives effect to the elimination of cumulative preferred dividends as a result of the conversion of outstanding shares of preferred stock into Common Stock upon the consummation of this offering.

(4) Gives effect to the conversion of all outstanding shares of preferred stock into Common Stock upon the consummation of this offering, the dilutive effect of outstanding options and warrants, and shares to be issued upon the consummation of this offering.

The pro forma consolidated balance sheet data set forth below at October 3, 1998 gives effect to the offering as if it had occurred on October 3, 1998. The pro forma adjustments are based upon currently available information and certain assumptions that management of the Company believes are reasonable under current circumstances.

SELECT COMFORT CORPORATION AND SUBSIDIARIES

PRO FORMA CONSOLIDATED BALANCE SHEET

OCTOBER 3, 1998
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA
ASSETS			
Current assets:			
Cash and cash equivalents	$ 9,579	$ 41,097(3) (15,000)(4)	$ 35,676
Accounts receivable, net	8,977	--	8,977

Inventories	10,315	--	10,315
Prepaid expenses	4,479	(433)(3)	4,046
Deferred tax assets	388	--	388
Total current assets	33,738	25,664	59,402
Property and equipment, net	28,255	--	28,255
Other assets	1,330	(573)(4)	757
Total assets	$ 63,323	$ 25,091	$ 88,414
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 1,052	$ --	$ 1,052
Accounts payable	12,247	--	12,247
Accruals:			
Sales returns	5,620	--	5,620
Warranty costs	3,862	--	3,862
Compensation, taxes and benefits	3,049	--	3,049
Other	4,302	(669)(4)	3,633
Total current liabilities	30,132	(669)	29,463
Long-term debt, less current maturities	24,244	(10,892)(1) (13,185)(1)	167
Other liabilities	1,691	--	1,691
Total liabilities	56,067	(24,746)	31,321
Series A-E mandatorily redeemable preferred stock, $1.00--$1.25 par value; 12,091,962 and no shares issued and outstanding, respectively	12,692	(12,692)(2)	--
Additional paid-in capital	14,920	(14,920)(2)	--
	27,612	(27,612)	--
Common shareholders' equity (deficit):			
Undesignated preferred stock; no shares issued and outstanding	--	--	--
Common stock, $.01 par value; 2,989,885 and 18,045,094 shares issued and outstanding, respectively	30	122(2) 28(3)	180
Additional paid-in capital	3,328	27,490(2) 40,636(3) 10,892(1)	82,346
Accumulated deficit	(22,720)	(1,719)(4)	(24,439)
Notes receivable--investors	(994)	--	(994)
Total common shareholders' equity (deficit)	(20,356)	77,449	57,093
Total liabilities and shareholders' equity	$ 63,323	$ 25,091	$ 88,414

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(1) As adjusted to give effect to the reclassification of a put warrant from debt to common shareholders' equity upon the consummation of the offering.

(2) Reflects automatic conversion of preferred stock to common stock upon the consummation of the offering.

(3) Reflects the net proceeds from the issuance of 2,800,000 shares at an assumed initial public offering price of $16.00 per share.

(4) Reflects repayment of the Company's March 1997 $15.0 million indebtedness, the expensing of certain deferred costs associated therewith, and related tax effects.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders

Select Comfort Corporation:

We have audited the accompanying consolidated balance sheets of Select Comfort Corporation and subsidiaries (the Company) as of December 28, 1996, January 3, 1998 and October 3, 1998, and the related consolidated statements of operations, shareholders' deficit, and cash flows for each of the years in the three-year period ended January 3, 1998 and for the nine months ended October 3, 1998. These consolidated financial statements are the responsibility of the

Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Select Comfort Corporation and subsidiaries as of December 28, 1996, January 3, 1998 and October 3, 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended January 3, 1998 and for the nine months ended October 3, 1998 in conformity with generally accepted accounting principles.

Minneapolis, Minnesota
October 23, 1998

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 28, 1996, JANUARY 3, 1998 AND OCTOBER 3, 1998
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	1996	1997	OCTOBER 3, 1998
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,422	$ 12,670	$ 9,579
Accounts receivable, net of allowance for doubtful accounts of $200, $1,901, and $2,817, respectively (note 2)	1,202	6,001	8,977
Inventories (note 3)	5,582	7,749	10,315
Prepaid expenses	1,689	4,256	4,479
Deferred tax assets	--	--	388
Total current assets	10,895	30,676	33,738
Property and equipment, net (note 4)	18,316	25,183	28,255
Other assets	583	1,382	1,330
Total assets	$ 29,794	$ 57,241	$ 63,323
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current liabilities:			
Notes payable to investors (note 6)	$ 1,252	$ --	$ --
Current maturities of long-term debt (note 7)	563	999	1,052
Accounts payable	9,173	12,199	12,247
Accruals:			
Sales returns	2,795	5,324	5,620
Warranty costs	2,036	3,257	3,862
Compensation, taxes and benefits	1,723	3,149	3,049
Other	1,162	4,991	4,302
Total current liabilities	18,704	29,919	30,132
Long-term debt, less current maturities (note 7)	1,162	19,511	24,244
Other liabilities	532	1,237	1,691
Total liabilities	20,398	50,667	56,067
Series A-E mandatorily redeemable preferred stock, $1.00-$1.25 par value; 12,123,390 shares authorized, 12,091,962 shares issued and outstanding (note 8)	12,692	12,692	12,692
Additional paid-in capital	14,920	14,920	14,920
	27,612	27,612	27,612

Common shareholders' deficit (note 9):			
Undesignated preferred stock; 5,000,000 shares authorized, no shares issued and outstanding	--	--	--
Common stock, $.01 par value; 25,000,000 shares authorized, 1,847,146 and 2,477,660 and 2,989,885 shares issued and outstanding, respectively	19	25	30
Additional paid-in capital	1,226	1,662	3,328
Accumulated deficit	(19,461)	(22,307)	(22,720)
Notes receivable--investors (note 14)	--	(418)	(994)
Total common shareholders' deficit	(18,216)	(21,038)	(20,356)
Commitments (notes 5, 7 and 15)			
Total liabilities and shareholders' deficit	$ 29,794	$ 57,241	$ 63,323

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 30, 1995, DECEMBER 28, 1996
AND JANUARY 3, 1998 AND NINE MONTHS
ENDED SEPTEMBER 27, 1997 AND OCTOBER 3, 1998
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

				NINE MONTHS ENDED	
	1995	1996	1997	SEPTEMBER 27, 1997	OCTOBER 3, 1998
				(UNAUDITED)	
Net sales	$ 68,629	$ 102,028	$ 184,430	$ 126,470	$ 178,835
Cost of sales	28,833	38,521	66,629	44,886	62,290
Gross margin	39,796	63,507	117,801	81,584	116,545
Operating expenses:					
Sales and marketing	34,164	54,814	99,218	69,476	95,231
General and administrative	10,221	12,457	16,505	11,593	13,932
Total operating expenses	44,385	67,271	115,723	81,069	109,163
Operating income (loss)	(4,589)	(3,764)	2,078	515	7,382
Other income (expense):					
Interest income	136	244	682	484	548
Interest expense (note 7)	(34)	(88)	(5,234)	(3,251)	(6,995)
Other, net	(73)	(77)	(231)	(256)	--
Other income (expense), net	29	79	(4,783)	(3,023)	(6,447)
Income (loss) before income taxes	(4,560)	(3,685)	(2,705)	(2,508)	935
Income tax expense (note 10)	--	--	141	16	1,348
Net loss	$ (4,560)	$ (3,685)	$ (2,846)	$ (2,524)	$ (413)
Cumulative preferred dividends	--	$ (900)	$ (900)	$ (675)	$ (675)
Net loss available to common shareholders	$ (4,560)	$ (4,585)	$ (3,746)	$ (3,199)	$ (1,088)
Net loss per common share (note 11)					
Basic	$ (3.16)	$ (2.61)	$ (1.59)	$ (1.39)	$ (0.40)
Diluted	$ (2.81)	$ (2.37)	$ (1.48)	$ (1.29)	$ (0.37)

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
YEARS ENDED DECEMBER 30, 1995, DECEMBER 28, 1996,
AND JANUARY 3, 1998
AND NINE MONTHS ENDED OCTOBER 3, 1998
(DOLLARS IN THOUSANDS)

	COMMON STOCK		ADDITIONAL PAID-IN	ACCUMULATED	NOTES RECEIVABLE -	
	SHARES	AMOUNT	CAPITAL	DEFICIT	INVESTORS	TOTAL
Balance at December 31, 1994	1,348,579	$ 13	$ 611	$ (11,216)	$ --	$ (10,592)
Exercise of common stock options	186,153	2	121	--	--	123
Conversion of subordinated debenture	52,076	1	249	--	--	250
Net loss	--	--	--	(4,560)	--	(4,560)
Balance at December 30, 1995	1,586,808	16	981	(15,776)	--	(14,779)
Exercise of common stock options	260,338	3	245	--	--	248
Net loss	--	--	--	(3,685)	--	(3,685)
Balance at December 28, 1996	1,847,146	19	1,226	(19,461)	--	(18,216)
Exercise of common stock options	630,514	6	436	--	--	442
Issuance of investor notes	--	--	--	--	(418)	(418)
Net loss	--	--	--	(2,846)	--	(2,846)
Balance at January 3, 1998	2,477,660	25	1,662	(22,307)	(418)	(21,038)
Exercise of common stock options and warrants	512,225	5	1,666	--	--	1,671
Issuance of investor notes	--	--	--	--	(576)	(576)
Net loss	--	--	--	(413)	--	(413)
Balance at October 3, 1998	2,989,885	$ 30	$ 3,328	$ (22,720)	$ (994)	$ (20,356)

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 30, 1995, DECEMBER 28, 1996,
AND JANUARY 3, 1998
AND NINE MONTHS ENDED SEPTEMBER 27, 1997 AND OCTOBER 3, 1998
(IN THOUSANDS)

	1995	1996	1997	NINE MONTHS ENDED SEPTEMBER 27, 1997
				(UNAUDITED)
Cash flows from operating activities:				
Net loss	$ (4,560)	$ (3,685)	$ (2,846)	$ (2,524)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,090	2,094	4,030	2,744
Loss on disposal of property and equipment	11	66	264	264
Deferred tax assets	--	--	--	--
Interest expense from put warrant valuation	--	--	3,250	1,901
Change in operating assets and liabilities:				
Accounts receivable, net	(488)	(421)	(4,799)	60
Inventories	(1,177)	(500)	(2,167)	(2,760)
Prepaid expenses	(171)	(781)	(2,567)	(1,413)
Accounts payable	1,961	4,039	3,026	2,493
Accrued sales returns	1,102	888	2,529	1,766
Accrued warranty costs	782	646	1,221	1,178
Accrued compensation, taxes and benefits	813	393	1,426	560
Other accrued liabilities	332	158	3,829	1,087
Other assets	(154)	(91)	(565)	(507)
Other liabilities	55	270	705	642
Net cash provided by (used in) operating activities	(404)	3,076	7,336	5,491

Cash flows from investing activities:				
Purchases of property and equipment	(5,614)	(10,122)	(10,727)	(9,031)
Net cash used in investing activities	(5,614)	(10,122)	(10,727)	(9,031)
Cash flows from financing activities:				
Proceeds from issuance of debt	31	2,850	16,184	16,184
Principal payments on debt	--	(523)	(2,203)	(1,968)
Debt issuance costs	--	--	(781)	(781)
Proceeds from issuance of common stock	123	292	439	399
Proceeds from issuance of redeemable preferred stock	8,956	(13)	--	--
Net cash provided by financing activities	9,110	2,606	13,639	13,834
Increase (decrease) in cash and cash equivalents	3,092	(4,440)	10,248	10,294
Cash and cash equivalents, at beginning of period	3,770	6,862	2,422	2,422
Cash and cash equivalents, at end of period	$ 6,862	$ 2,422	$ 12,670	$ 12,716

Cash flows from operating activities:	
Net loss	$ (413)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	3,985
Loss on disposal of property and equipment	--
Deferred tax assets	(388)
Interest expense from put warrant valuation	5,222
Change in operating assets and liabilities:	
Accounts receivable, net	(2,976)
Inventories	(2,566)
Prepaid expenses	(223)
Accounts payable	48
Accrued sales returns	296
Accrued warranty costs	605
Accrued compensation, taxes and benefits	(100)
Other accrued liabilities	(689)
Other assets	(618)
Other liabilities	454
Net cash provided by (used in) operating activities	2,637
Cash flows from investing activities:	
Purchases of property and equipment	(6,659)
Net cash used in investing activities	(6,659)
Cash flows from financing activities:	
Proceeds from issuance of debt	--
Principal payments on debt	(740)
Debt issuance costs	--
Proceeds from issuance of common stock	1,671
Proceeds from issuance of redeemable preferred stock	--
Net cash provided by financing activities	931
Increase (decrease) in cash and cash equivalents	(3,091)
Cash and cash equivalents, at beginning of period	12,670
Cash and cash equivalents, at end of period	$ 9,579

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(INFORMATION PERTAINING TO THE NINE MONTHS ENDED SEPTEMBER 27, 1997 IS UNAUDITED)

(1) BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

Select Comfort Corporation and its wholly owned subsidiaries (the Company) develop, manufacture, and market air beds and sleep-related products. The Company's fiscal year ends on the Saturday closest to December 31. Fiscal years 1995 and 1996 each had 52 weeks. Fiscal 1997 had 53 weeks. Certain prior year amounts have been reclassified to conform to the current year presentation.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company

and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

INTERIM FINANCIAL INFORMATION

The financial information presented for the nine months ended September 27, 1997 is unaudited. In the opinion of management, this unaudited financial information contains all adjustments (which consist only of normal, recurring adjustments) necessary for a fair presentation. Operating results for the nine months ended October 3, 1998 are not necessarily indicative of results that may be expected for the full year.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid investments with initial maturities of three months or less.

INVENTORIES

Inventories includes material, labor, and overhead and is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

PROPERTY AND EQUIPMENT

Property and equipment, carried at cost, are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are amortized over the shorter of the life of the lease or ten years.

OTHER ASSETS

Other assets include security deposits, patents, trademarks, and debt issuance costs. Patents and trademarks are amortized using the straight-line method over a 17-year period and 15-year period, respectively. Debt issuance costs are amortized using the straight-line method over the term of the debt.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the

(1) BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ACCRUED WARRANTY COSTS

The Company has a 20-year warranty on air beds, the last 15 years of which are on a prorated basis. Estimated warranty costs are provided at the time of sale of the warranted products. Estimates are based upon historical warranty claims incurred by the Company. Given the limited history available, actual results could differ from these estimates.

ACCRUED SALES RETURNS

Estimated sales returns are provided at the time of sale based upon historical sales returns. Returns are allowed by the Company for 90 nights following the sale.

IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

The Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents and accounts receivable approximate fair value because of the short-term maturity of those instruments. The fair value of long-term debt approximates carrying value based on the Company's estimate of rates that would be available to it for debt of the same remaining maturities. Warrants are recorded at fair value based on a third party valuation. The Company believes it is not practical to estimate a fair market value different from the redeemable preferred stock's carrying value, as this security has numerous unique features (See Note 8).

REVENUE RECOGNITION

Revenue is recognized when products are shipped to customers net of estimated returns.

STOCK COMPENSATION

The Company records compensation expense for option grants under its stock option plan if the current market value of the underlying stock at the grant date exceeds the stock option exercise price. Pro forma disclosure of the net income impact of applying an alternative method of recognizing stock compensation expense over the vesting period based on the fair value of all stock-based awards on the date of grant is presented in Note 9.

(1) BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESEARCH AND DEVELOPMENT COSTS

Costs incurred in connection with research and development are charged to expense as incurred. Research and development expense was $1,412,000, $1,464,000 and $1,819,000 in 1995, 1996 and 1997, respectively, and $1,310,000 and $1,085,000 for the nine months ended September 27, 1997 and October 3, 1998, respectively.

PRE-OPENING COSTS

Costs associated with the opening of new stores are expensed as incurred.

DIRECT RESPONSE ADVERTISING COSTS

The Company incurs direct response advertising costs associated with print

and broadcast advertisements. Such costs are charged to expense as incurred. Advertising expense was $10,545,000, $16,224,000 and $28,281,000 in 1995, 1996 and 1997, respectively, and $20,851,000 and $24,120,000 for the nine months ended September 27, 1997 and October 3, 1998, respectively.

INCOME TAXES

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

EARNINGS PER SHARE

Basic earnings per share excludes dilution and is computed by dividing the income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share includes common stock equivalents consisting of stock options and warrants determined by the treasury stock method, and dilutive convertible securities.

(2) ACCOUNTS RECEIVABLE

In June 1997, the Company began utilizing a third party bank to offer its qualified customers an unsecured revolving credit arrangement to finance purchases from the Company. The bank sets the rates, fees and all other terms and conditions of the customer accounts, including collection policies and procedures, and is the owner of the accounts. In connection with all purchases financed under these arrangements, the bank pays the Company an amount equal to the total amount of such purchases, net of promotional related discounts and less amounts retained for recourse related to returned products and limited recourse related to bad debts. The bank's recourse for bad debts is limited to a specified percent of receivables generated. The bank had retained $3,882,000 and $10,080,000 as of January 3, 1998 and October 3, 1998, respectively, under terms of the agreement. The Company has included such amounts in its accounts receivable net of estimated allowance for doubtful accounts.

(3) INVENTORIES

Inventories consist of the following (in thousands):

	DECEMBER 28, 1996	JANUARY 3, 1998	OCTOBER 3, 1998
Raw materials	$ 3,829	$ 5,891	$ 6,920
Work in progress	760	39	76
Finished goods	993	1,819	3,319
	$ 5,582	$ 7,749	$ 10,315

(4) PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows (in thousands):

	DECEMBER 28, 1996	JANUARY 3, 1998	OCTOBER 3, 1998
Leasehold improvements	$ 12,151	$ 18,164	$ 22,804
Office furniture and equipment	2,233	2,698	2,916
Production machinery and computer equipment	5,050	7,062	8,701
Other	826	1,256	1,424
Property and equipment under capital lease	1,870	2,971	2,966
Less accumulated depreciation and amortization	(3,814)	(6,968)	(10,556)
	$ 18,316	$ 25,183	$ 28,255

(5) LEASES

The Company rents office and manufacturing space under two operating leases which, in addition to the minimum lease payments, require payment of a proportionate share of the real estate taxes and building operating expenses. The Company also rents retail space under operating leases which, in addition to the minimum lease payments, require payment of percentage rents based upon sales levels. Rent expense aggregated $2,550,000, $5,112,000 and $9,357,000 for 1995, 1996 and 1997, respectively, and $6,539,000 and $9,215,000 for the nine months ended September 27, 1997 and October 3, 1998, respectively, including percentage rents of $152,000, $237,000 and $892,000 for 1995, 1996 and 1997, respectively, and $545,000 and $1,171,000 for the nine months ended September 27, 1997 and October 3, 1998, respectively.

The Company also leases equipment under noncancelable operating leases. Costs incurred under these operating leases aggregated $384,000, $402,000 and $683,000 for 1995, 1996 and 1997, respectively, and $478,000 and $632,000 for the nine months ended September 27, 1997 and October 3, 1998, respectively.

(5) LEASES (CONTINUED)

The aggregate minimum rental commitments under operating leases for the reminder of 1998 is $2,757,000 and for subsequent years are as follows (in thousands):

1999	$ 11,162
2000	11,318
2001	11,352
2002	11,098
2003	10,375
Thereafter	29,370

$ 84,675

(6) NOTES PAYABLE TO INVESTORS

In November 1996, the Company borrowed $1,252,000 and issued short-term notes payable to several related parties at 8% interest per annum. In connection with these notes, the Company granted warrants to purchase 59,606 shares of the Company's common stock at a purchase price of $5.25 per share. In accordance with the note agreements, an additional 11,919 common stock warrants were issued during 1997 at an exercise price of $5.25 per share. The notes were repaid in full in March 1997.

(7) NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

In March 1997, the Company completed a financing under which it issued a senior subordinated promissory note in the principal amount of $15,000,000, a warrant to purchase 1,100,000 shares of the Company's common stock at $10.50 per share and a warrant to purchase 1,000,000 shares of common stock at $0.01 per share. These warrants were subsequently adjusted and combined, resulting in a single warrant to purchase 1,309,583 shares of common stock at $8.82 per share, exercisable at any time prior to March 31, 2005. (see Note 9). At October 3, 1998, the Company was in compliance with all financial covenants.

The warrant holder may require repurchase of the warrant if an IPO has not been completed prior to March 27, 2002. The repurchase amount would be equal to the excess of the estimated fair market value of the Company's common stock, as determined by the warrant agreement, over the exercise price of the warrant. The Company also has an option to repurchase the warrant if the warrant has not been exercised prior to March 27, 2004. As required by Emerging Issues Task Force Issue 96-13 (EITF 96-13), the warrant is recorded at fair value and recorded as long-term debt. At January 3, 1998 and October 3, 1998, the fair value of the warrant was $5,670,000 and $10,892,000, respectively.

In addition, EITF 96-13 requires that any change in fair value of the warrant be reflected as interest expense. Accordingly, the financial statements reflect interest expense of $3,250,000 for 1997 and $1,900,000 and $5,222,000 for the nine months ended September 27, 1997 and October 3, 1998, respectively. In addition, in connection with the March 1997 $15.0 million debt issuance, the Company recorded original issue discount equal to $2,420,000, which is being amortized over the term of the note.

(INFORMATION PERTAINING TO THE NINE MONTHS ENDED SEPTEMBER 27, 1997 IS UNAUDITED)

(7) NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS (CONTINUED)

Long-term obligations under notes and capital leases are as follows (in thousands):

DECEMBER 28, 1996	JANUARY 3, 1998	OCTOBER 3, 1998

Senior subordinated note payable to financing company due March 2003 with interest payable quarterly at 11% per annum. Face amount of $15,000,000 net of $2,118,000 and $1,815,000, respectively, of debt discount with an effective interest rate of 13.7%....	$ --	$ 12,882	$ 13,185
Warrant subject to put provision.....	--	5,670	10,892
Notes payable under capital lease agreements, payable in monthly installments through March 2000, with interest at 9.75%--12.5% per annum. Financing available under these agreements aggregates $3,000,000, of which $2,966,000 had been utilized at October 3, 1998. In connection with these notes, the Company granted the vendor warrants to acquire 31,428 shares of the Company's Series E convertible preferred stock (note 8).....	1,725	1,958	1,219
	1,725	20,510	25,296
Less current maturities.....	563	999	1,052
	$ 1,162	$ 19,511	$ 24,244

Aggregate annual maturities of long-term debt for the five years subsequent to October 3, 1998 are as follows (in thousands):

1999.....	$ 1,052
2000.....	167
2001.....	--
2002.....	10,892
2003.....	15,000

(8) MANDATORILY REDEEMABLE PREFERRED STOCK

The holders of the Series A, B, C, D, and E mandatorily redeemable preferred stock are entitled to receive dividends out of funds legally available for dividends if and when declared by the board of directors. No dividends can be paid to common shareholders unless the dividend is allocated among the holders of Series A, B, C, D, and E shares and the holders of common shares based on the amount of the investment in the Company represented by each such class. In addition, the holders of Series E preferred stock are entitled to a cumulative dividend of $1.05 per share before dividends may be paid on any other class of capital stock. At October 3, 1998, cumulative dividends in arrears equaled $2,475,000. In the event of voluntary or involuntary liquidation, dissolution, or winding up of the Company or in the event of a sale of the Company's assets or a merger with another corporation, the holders of the Company's shares of preferred stock are entitled to receive the following amounts in the following

order of priority: (1) Series E, $21.00 per share through December 31, 1997 and $10.50 per share plus cumulative dividends thereafter, (2) Series D, $2.88 per share, Series C, $2.27 per share, Series B, $1.25 per share, and Series A, $1.00 per share, respectively, before any distribution is made with respect to the common stock. The Series A, B, C, D, and E shareholders have special voting rights as defined by the Articles of Incorporation. However, in the event of an underwritten public offering of the Company's common stock meeting certain requirements, the special voting rights will terminate.

The Series A, B, C, D, and E are convertible into an aggregate of 12,255,209 shares of common stock at any time or can be automatically converted into common stock upon the issuance of common stock in an underwritten public offering where the gross proceeds received by the Company equal or exceed $20,000,000 and the public offering price equals or exceeds $14.25 per share and, solely with respect to Series E, $19.95 per share after 1997. The conversion price was initially based on a one for one conversion of preferred to common shares. Effective March 31, 1998, the Series E conversion price was adjusted from $10.50 per share to $8.82 per share as a result of its anti-dilution clause. The Series A, B, C, D, and E must be redeemed by the Company, 1/3 each on or before December 31, 1998, 1999, and 2000 at $1.00, $1.25, $2.27, $2.88, and $10.50 per share, respectively. The holders of the Series A, B, C, D, and E have the option to defer this redemption offer for successive one-year periods. The deferral does not affect the Company's obligation to redeem in successive years. If the holders of the Series A, B, C, D, and E elect to defer the redemption, the Company has the right, but not the obligation, to redeem the Series A, B, C, D, and E on December 31, 2000.

(8) MANDATORILY REDEEMABLE PREFERRED STOCK (CONTINUED)

Mandatorily redeemable preferred stock consisted of the following as of December 28, 1996, January 3, 1998 and October 3, 1998 (in thousands):

	PAR VALUE	ADDITIONAL PAID-IN CAPITAL
Series A, $1.00 par value; 4,458,852 shares authorized, issued, and outstanding	$ 4,459	$ --
Series B, $1.25 par value; 2,400,000 shares authorized, issued, and outstanding	3,000	--
Series C, $1.00 par value; 2,292,635 shares authorized, issued, and outstanding	2,293	2,972
Series D, $1.00 par value; 2,083,332 shares authorized, issued, and outstanding	2,083	3,862
Series E, $1.00 par value; 888,571 shares authorized and 857,143 shares issued and outstanding	857	8,086
Total mandatorily redeemable preferred stock	$ 12,692	$ 14,920

Changes in mandatorily redeemable preferred stock are as follows (dollars in

thousands):

	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	TOTAL
Balance at December 31, 1994	11,234,819	$ 11,835	$ 6,834	$ 18,669
Issuance of Series E preferred stock	857,143	857	8,099	8,956
Balance at December 30, 1995	12,091,962	12,692	14,933	27,625
Issuance of Series E preferred stock	--	--	(13)	(13)
Balance at December 28, 1996, January 3, 1998 and October 3, 1998	12,091,962	$ 12,692	$ 14,920	$ 27,612

(INFORMATION PERTAINING TO THE NINE MONTHS ENDED SEPTEMBER 27, 1997 IS UNAUDITED)

(9) SHAREHOLDERS' DEFICIT

STOCK OPTIONS

The Board of Directors has reserved 4,300,000 shares of common stock for options that may be granted to key employees, directors, or others under the Company's stock option plans.

A summary of the status of the Company's stock option plans for the periods ended October 3, 1998 is as follows:

	SHARES	AVERAGE EXERCISE PRICE
Outstanding at December 31, 1994	1,355,775	$ 0.54
Granted	545,500	3.79
Exercised	186,153	0.65
Canceled	79,939	0.66
Outstanding at December 30, 1995 (including 947,193 shares exercisable)	1,635,183	1.59
Granted	443,850	5.25
Exercised	260,338	1.09
Canceled	139,522	2.29
Outstanding at December 28, 1996 (including 1,105,468 shares exercisable)	1,679,173	2.58
Granted	1,073,750	6.20
Exercised	630,514	0.70
Canceled	26,800	4.29
Outstanding at January 3, 1998 (including 931,319 shares exercisable)	2,095,609	4.98
Granted	201,450	12.03
Exercised	509,225	3.17
Canceled	127,307	5.01
Outstanding at October 3, 1998 (including 797,971 shares exercisable)	1,660,527	$ 6.38

The following table summarizes information about options outstanding at October 3, 1998:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICE	SHARES	AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	AVERAGE EXERCISE PRICE	SHARES	AVERAGE EXERCISE PRICE
$ 0.45 - 0.45	6,148	4.69	$ 0.45	6,148	$ 0.45
0.75 - 1.00	75,530	5.96	0.94	72,688	0.93
4.80 - 6.50	1,181,022	7.98	5.25	590,429	5.19
7.50 - 11.00	360,702	9.27	10.25	121,446	9.91
14.00 - 19.00	37,125	9.74	16.70	7,260	16.45
$ 0.45 - 19.00	1,660,527	8.20	$ 6.38	797,971	$ 5.59

No compensation cost has been recognized in the financial statements for stock options grants. Had the Company determined compensation cost based on the fair value at the grant date for its stock options

under an alternative accounting method, the Company's net loss would have been adjusted as indicated below (in thousands):

	1995	1996	1997	NINE MONTHS ENDED OCTOBER 3, 1998
Net loss: As reported	$ (4,560)	$ (3,685)	$ (2,846)	$ (413)
Pro forma	$ (4,892)	$ (4,253)	$ (3,563)	$ (1,187)

The fair value of each option grant is estimated on the date of grant using the Black-Sholes option-pricing model with the following assumptions: expected dividend yield--0%; expected stock price volatility--40%; risk-free interest rate--6.4% for 1995, 1996 and 1997, and 4.6% for the nine months ended October 3, 1998; expected life of options--4.5 years, 3.0 years, 4.2 years and 3.0 years for 1995, 1996, 1997, and the nine months ended October 3, 1998, respectively. The per share weighted-average fair value of stock options granted during 1995, 1996, 1997 and the nine months ended October 3, 1998 was $1.80, $2.03, $1.92, and $3.85, respectively.

WARRANTS

In connection with the financing completed in March 1997 (see Note 7), the Company issued a warrant to purchase 1,100,000 shares of Common Stock at $10.50 per share (Series A Warrant) and a warrant to purchase 1,000,000 shares of Common Stock at $0.01 per share (Series B Warrant). The Series B Warrant provided that the number of shares exercisable could be reduced based on future earnings levels or in the event the Company completed an initial public offering. Effective March 31, 1998, the warrants were adjusted and combined, resulting in a single warrant to purchase 1,309,583 shares of Common Stock at $8.82 per share, exercisable at any time prior to March 31, 2005.

In April 1996, the Company amended the Series E Stock Purchase Agreement dated December 28, 1995 to provide for the issuance of warrants to the holders of Series E Preferred Stock to purchase an aggregate of 171,429 shares of Common Stock at an exercise price of $5.25 per share. During September 1998, warrants for 3,000 common shares were exercised. Warrants for 168,429 shares remained outstanding at October 3, 1998.

In connection with a capital lease transaction with a vendor in 1997, the Company granted the vendor warrants to acquire 31,428 shares of the Company's Series E convertible preferred stock at a purchase price of $10.50 per share. The warrants are exercisable for the shorter of (1) ten years from the grant date, or (2) five years from the effective date of an initial public offering.

In connection with short-term debt issued to related parties in 1996, the Company granted warrants to purchase 71,425 shares of the Company's common stock at a purchase price of $5.25 per share. The warrants are exercisable for ten years from the grant date.

(INFORMATION PERTAINING TO THE NINE MONTHS ENDED SEPTEMBER 27, 1997 IS UNAUDITED)

(10) INCOME TAXES

The provision for income taxes consists of the following (in thousands):

	1995	1996	1997	NINE MONTHS ENDED OCTOBER 3, 1998
Current:				
Federal	$ --	$ --	$ 125	$ 1,192
State	--	--	16	544
	--	--	141	1,736
Deferred:				
Federal	--	--	--	(321)
State	--	--	--	(67)
	--	--	--	(388)
Income tax expense	$ --	$ --	$ 141	$ 1,348

Effective tax rates differ from statutory federal income tax rates as follows:

	1995	1996	1997	NINE MONTHS ENDED OCTOBER 3, 1998
Statutory federal income tax rate	(34.0)%	(34.0)%	(34.0)%	35.0%
Nondeductible interest expense, put warrants	--	--	40.8	195.4
Change in valuation allowance	36.0	33.0	(2.7)	(211.0)
Effect of change in tax rate on deferred tax asset	0.0	8.6	0.0	0.0
State income taxes, net of federal benefit	(2.0)	(4.0)	0.4	37.8
General business credits	0.0	(2.6)	0.0	0.0
To adjust to annualized effective rate	0.0	0.0	0.0	83.5
Other	0.0	(1.0)	0.7	3.5
	0.0%	0.0%	5.2%	144.2%

The tax effects of temporary differences that give rise to deferred tax assets at December 28, 1996, January 3, 1998 and October 3, 1998 are as follows (in thousands):

	1996	1997	1998
Deferred tax assets:			
Current:			
Inventory, warranty, and returns reserves	$ 1,916	$ 3,361	$ 4,002
Allowance for doubtful accounts	76	722	93
Advertising costs	300	--	--
Other	113	214	734
Long term:			
Net operating loss carryforwards	4,967	2,842	602
Other	183	344	465
Total gross deferred tax assets	7,555	7,483	5,896
Valuation allowance	(7,555)	(7,483)	(5,508)
Total net deferred tax assets	$ --	$ --	$ 388

(INFORMATION PERTAINING TO THE NINE MONTHS ENDED SEPTEMBER 27, 1997 IS UNAUDITED)

(10) INCOME TAXES (CONTINUED)

At October 3, 1998, the Company had net operating loss carryforwards for federal income tax purposes of approximately $1,600,000. The Company expects that approximately $1,400,000 of these carryforwards will expire unutilized due to an Internal Revenue Code (IRC) Section 382 limitation resulting from a prior ownership change. The remaining $200,000 may be available to offset future taxable income and will expire between the years 2003 and 2006. The utilization of the carryforwards may be further restricted in the event of future ownership changes.

(11) NET LOSS PER COMMON SHARE

The following computations reconcile net loss with net loss per common share--basic and net loss per common share--diluted (dollars in thousands, except per share amounts).

	1995		
	NET LOSS	SHARES	PER SHARE AMOUNT
Net loss	$ (4,560)		
Less cumulative preferred dividends	--		
BASIC EPS			
Net loss available to common shareholders	(4,560)	1,443,741	$ (3.16)
EFFECT OF DILUTIVE SECURITIES			
Dilutive effect retroactively applied to share issuances	--	178,835	
DILUTED EPS			
Net loss available to common shareholders	$ (4,560)	1,622,576	$ (2.81)

	1996		
	NET LOSS	SHARES	PER SHARE AMOUNT
Net loss	$ (3,685)		
Less cumulative preferred dividends	(900)		
BASIC EPS			
Net loss available to common shareholders	(4,585)	1,753,484	$ (2.61)
EFFECT OF DILUTIVE SECURITIES			
Dilutive effect retroactively applied to share issuances	--	178,835	
DILUTED EPS			
Net loss available to common shareholders	$ (4,585)	1,932,319	$ (2.37)

	1997		
	NET LOSS	SHARES	PER SHARE AMOUNT
Net loss	$ (2,846)		
Less cumulative preferred dividends	(900)		
BASIC EPS			
Net loss available to common shareholders	(3,746)	2,352,947	$ (1.59)
EFFECT OF DILUTIVE SECURITIES			
Dilutive effect retroactively applied to share issuances	--	178,835	
DILUTED EPS			
Net loss available to common shareholders	$ (3,746)	2,531,782	$ (1.48)

(INFORMATION PERTAINING TO THE NINE MONTHS ENDED SEPTEMBER 27, 1997 IS UNAUDITED)

(11) NET LOSS PER COMMON SHARE (CONTINUED)

	NINE MONTHS ENDED OCTOBER 3, 1998		
	NET LOSS	SHARES	PER SHARE AMOUNT
Net loss	$ (413)		
Less cumulative preferred dividends	(675)		
BASIC EPS			
Net loss available to common shareholders	(1,088)	2,745,602	$ (0.40)
EFFECT OF DILUTIVE SECURITIES			
Dilutive effect retroactively applied to share issuances	--	178,835	
DILUTED EPS			
Net loss available to common shareholders	$ (1,088)	2,924,437	$ (0.37)

The following is a summary of those securities outstanding during the respective periods which have been excluded from the calculations because the effect on net income (loss) per common share would not have been dilutive:

	1995	1996	1997	NINE MONTHS ENDED OCTOBER 3, 1998
Options	1,635,183	1,679,173	2,095,609	1,660,527
Common stock warrants	--	154,023	2,342,954	1,549,537
Preferred stock warrants	--	31,428	31,428	31,428
Convertible preferred stock	12,091,962	12,091,962	12,091,962	12,091,962

Convertible preferred stock and preferred stock warrants were convertible into 12,292,623; common shares during 1995, 1996, 1997 and the nine months ended October 3, 1998.

(12) SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Total cash paid for interest during 1995, 1996 and 1997 was $34,000, $44,000 and $1,512,000, respectively, and $710,000 and $1,372,000, respectively, for the nine months ended September 27, 1997 and October 3, 1998. There were no cash payments for income taxes during 1995 or 1996. Income tax payments during 1997 totaled $16,000 and during the nine month periods ended September 27, 1997 and October 3, 1998 totaled $16,000 and $1,708,000, respectively.

During 1995, $250,000 of notes payable were converted to common stock.

(13) EMPLOYEE BENEFIT PLANS

Effective January 1, 1994, the Company adopted a profit sharing and 401(k) plan for eligible employees. The plan allows employees to defer up to 15% of their compensation on a pretax basis. Each year, the Company may make a discretionary contribution equal to a percentage of the employee's

(13) EMPLOYEE BENEFIT PLANS (CONTINUED)

contribution. The Company did not make a contribution for 1995 and 1996. During 1997 and the nine months ended October 3, 1998, the Company expensed $78,000 and $50,000, respectively, relating to its contribution to the 401(k) plan.

(14) RELATED PARTY TRANSACTIONS

At December 28, 1996, the Company had a $50,000 note receivable due from a former director and executive officer of the Company. The note plus interest at 6% per annum was due on August 31, 1997. On February 20, 1997, the former director and executive officer signed a promissory note for $387,000, which replaced the $50,000 note receivable. The note, with interest at 9.25% per annum, is due and payable to the Company on the earlier of (1) six months following the completion of an initial public offering of the Company's securities, or (2) April 30, 1999. The full recourse note is secured by a pledge of 150,000 shares of the Company's common stock. In April 1998, the former director and executive officer borrowed an additional $425,000 from the Company under the same terms as the February 1997 note. At October 3, 1998 the note receivable, including interest, totaled $890,000.

At December 28, 1996 the Company had a $20,000 note receivable due from an employee of the Company. This non-interest-bearing note was repaid in 1997.

(15) COMMITMENTS AND CONTINGENCIES

The Company is a party to various claims, legal actions, sales tax disputes, and other complaints arising in the ordinary course of business. In the opinion of management, any losses that may occur are adequately covered by insurance or are provided for in the financial statements and the ultimate outcome of these matters will not have a material effect on the financial position or results of operations of the Company.

(16) INITIAL PUBLIC OFFERING

The Company is in the process of completing an initial public offering. Upon consummation of the offering, mandatorily redeemable preferred shares will be converted into common shares which will require an increase in authorized shares. The Company anticipates amending its Articles of Incorporation to increase authorized common shares from 25,000,000 to 95,000,000.

[Inside back cover includes a picture of a cross-section of a Select Comfort air bed, several pictures of people on Select Comfort air beds, a picture of a Select Comfort air bed and a picture of a remote control unit for a Select

Comfort air bed]

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NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, ANY SELLING SHAREHOLDER OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY TO ANY PERSON IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION WOULD BE UNLAWFUL OR TO ANY PERSON TO WHOM IT IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

TABLE OF CONTENTS

UNTIL , 1998 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

4,000,000 SHARES

SELECT COMFORT CORPORATION

COMMON STOCK

PROSPECTUS

HAMBRECHT & QUIST

BANCBOSTON ROBERTSON STEPHENS

PIPER JAFFRAY INC.

, 1998

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by the Company in connection with the sale of Common Stock being registered. All of the amounts shown are estimates, except the SEC registration fee, the NASD filing fees and the Nasdaq listing fee.

SEC registration fee	$ 32,450
NASD filing fee	11,500
Nasdaq listing fee	95,000
Fees and expenses of counsel for the Company	375,000
Fees and expenses of accountants for the Company	225,000
Blue sky fees and expenses	5,000
Printing expenses	100,000
Transfer agent fees	4,000
Miscellaneous	152,050
Total	$1,000,000

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Minnesota Statutes, Section 302A.521 provides that a Minnesota business corporation shall indemnify any director, officer, employee or agent of the corporation made or threatened to be made a party to a proceeding, by reason of the former or present official capacity (as defined) of the person, against judgments, penalties, fines, settlements and reasonable expenses incurred by the person in connection with the proceeding if certain statutory standards are met. "Proceeding" means a threatened, pending or completed civil, criminal, administrative, arbitration or investigative proceeding, including one by or in the right of the corporation. Section 302A.521 contains detailed terms regarding such right of indemnification and reference is made thereto for a complete statement of such indemnification rights. The Company's Articles of Incorporation also require the Company to provide indemnification to the fullest extent of the Minnesota indemnification statute.

The Company also maintains a directors and officers insurance policy pursuant to which directors and officers of the Company are insured against liability for certain actions in their capacity as directors and officers.

Reference is also made to Section 7(a) of the Underwriting Agreement contained in Exhibit 1.1 hereto, indemnifying officers and directors of the Company against certain liabilities.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Since August 1, 1995, the Company has issued and sold the following

securities without registration under the Securities Act:

1. On December 28, 1995, the Company sold an aggregate of 857,143 shares of Series E Preferred Stock at a price of $10.50 per share and issued warrants to purchase an aggregate of 171,429 shares of Common Stock exercisable through December 28, 2005 at an exercise price of $5.25 pursuant to the Company's Series E Convertible Preferred Stock Purchase Agreement dated December 28, 1995, as amended, for an aggregate purchase price of approximately $9.0 million to 25 accredited investors and three non-accredited investors, including shares and warrants sold to the following entities and individuals in the following amounts: Apex Investment Fund, L.P. (19,380 shares

of Series E Preferred Stock convertible into 23,071 shares of Common Stock and a warrant to purchase 3,876 shares); Macke Limited Partnership (11,900 shares of Series E Preferred Stock convertible into 14,166 shares of Common Stock and a warrant to purchase 2,380 shares); Norwest Equity Partners V (257,150 shares of Series E Preferred Stock convertible into 306,130 shares of Common Stock and a warrant to purchase 77,145 shares) St. Paul Fire and Marine Insurance Company (100,000 shares of Series E Preferred Stock convertible into 119,047 shares of Common Stock and a warrant to purchase 20,000 shares); John Sculley (15,000 shares of Series E Preferred Stock convertible into 17,857 shares of Common Stock and a warrant to purchase 3,000 shares); Patrick A. Hopf (950 shares of Series E Preferred Stock convertible into 1,129 shares of Common Stock and a warrant to purchase 190 shares); Mark L. de Naray (500 shares of Series E Preferred Stock convertible into 595 shares of Common Stock and a warrant to purchase 100 shares); and Daniel J. McAthie (20,000 shares of Series E Preferred Stock convertible into 23,809 shares of Common Stock and a warrant to purchase 4,000 shares).

2. From August 1, 1995 through December 31, 1995, the Company issued an aggregate of 119,782 shares of Common Stock to employees and directors of the Company pursuant to the exercise of stock options by such individuals. Of the 119,782 shares issued, 60,000 were issued at $1.00 per share; 4,782 were issued at $.45 per share; 25,000 were issued at $.40 per share; and 30,000 were issued at $.30 per share.

3. On August 27, 1996, the Company issued a warrant to Comdisco, Inc. to purchase 7,619 shares of the Company's Series E Preferred Stock exercisable for five years from the effective date of this offering at an exercise price of $10.50 per share in connection with a Master Lease Agreement dated as of August 27, 1996 and an Equipment Schedule No. VL-1 dated as of August 27, 1996. Upon consummation of this offering, the warrant will automatically be amended to provide for the purchase of 9,070 shares of Common Stock at an exercise price of $8.82 per share.

4. In November 1996, the Company borrowed an aggregate of $1,251,700 from certain existing shareholders and issued promissory notes evidencing such loans. Interest on these notes accrued at an annual rate of 8%. In connection with such loans, the Company granted each of these shareholders warrants to purchase a number of shares of Common Stock equal to 25% of the principal amount of such shareholder's note divided by $5.25 (an aggregate of 59,606 shares of Common Stock), exercisable until October 31, 2006 at $5.25 per share. The promissory notes were due on the earlier of the following: (i) the closing date of an equity financing of $10.0 million or more, or (b) November 1, 1997. The Company paid off the promissory notes in full in March 1997 and at such time granted each of these shareholders additional warrants to purchase a number of shares equal to 5% of the principal amount of such shareholder's note divided by $5.25 (an aggregate of 11,919 shares of Common Stock), exercisable through October 31, 2006 at $5.25 per share. All of the purchasers of the notes and warrants were accredited investors, including the following entities: Apex Investment Fund, L.P. ($126,450 and warrants to purchase 7,226 shares); Macke Limited

Partnership ($6,000 and warrants to purchase 343 shares); Norwest Equity Partners V ($122,550 and warrants to purchase 7,003 shares); and St. Paul Fire and Marine Insurance Co. ($835,150 and warrants to purchase 47,723 shares).

5. On November 11, 1996, Company issued a warrant to Comdisco, Inc. to purchase 23,809 shares of the Company's Series E Preferred Stock exercisable for five years from the effective date of this offering at an exercise price of $10.50 per share in connection with a Master Lease Agreement dated as of August 27, 1996 and Equipment Schedule Nos. VL-2 and VL-3 dated as of November 11, 1996. Upon consummation of this offering, the warrant will automatically be amended to provide for the purchase of 28,344 shares of Common Stock at an exercise price of $8.82 per share.

6. From January 1, 1996 through December 31, 1996, the Company issued an aggregate of 261,598 shares of Common Stock to employees and directors of the Company pursuant to the exercise of stock options by such individuals. Of the 261,598 shares issued, 19,567 were issued at $5.25 per

share; 9,713 were issued at $4.80; 61,814 were issued at $2.60 per share; 69,995 were issued at $1.00; 11,033 were issued at $.85 per share; 6,090 were issued at $.75 per share; 4,786 were issued at $.45 per share; 7,000 were issued at $.40 per share and 71,600 were issued at $.30 per share.

7. On March 27, 1997, the Company entered into a Purchase Agreement dated March 27, 1997 (the "GE Purchase Agreement") with General Electric Capital Corporation ("GECC"), pursuant to which the Company issued to GE a senior subordinated promissory note in the principal amount of $15.0 million (the "GE Note"). Interest on the GE Note accrues at a rate equal to 11% per year and is payable quarterly in arrears. The outstanding principal on the GE Note is due on or before March 31, 2003. In connection with the GE Purchase Agreement, the Company issued to GE a Series A Warrant (the "Series A Warrant") to purchase an aggregate of 1,100,000 shares of Common Stock exercisable through March 31, 2005 at an exercise price of $10.50 and a Series B Warrant (the "Series B Warrant") containing certain contingent rights to purchase an aggregate of up to 1,000,000 shares of Common Stock at an exercise price of $.01. Pursuant to an amendment to the GE Purchase Agreement effective as of March 31, 1998, the Company and GECC restructured these warrants by combining them into one Series A Warrant to purchase 1,309,583 shares of Common Stock at an exercise price of $8.82.

8. From January 1, 1997 through December 31, 1997, the Company issued an aggregate of 630,094 shares of Common Stock to employees and directors of the Company pursuant to the exercise of stock options by such individuals. Of the 630,094 shares issued, 9,302 were issued at $5.25 per share; 26,042 were issued at $4.80 per share; 38,820 were issued at $1.00 per share; 8,588 were issued at $.85 per share; 50,160 were issued at $.75 per share; 178,792 were issued at $.45 per share; 88,440 were issued at $.40 per share; and 229,950 were issued at $.30 per share.

9. From January 1, 1998 through October 3, 1998, the Company issued an aggregate of 511,385 shares of Common Stock to employees and directors of the Company pursuant to the exercise of stock options by such individuals. Of the 511,385 shares issued, 75 were issued at $16.50 per share; 631 were issued at $11.00 per share; 100 were issued at $10.00 per share; 166 were issued at $7.50 per share; 201,626 were issued at $5.25 per share; 88,683 were issued at $4.80 per share; 33,288 were issued at $1.00 per share; 60,234 were issued at $.85 per share; 35,182 were issued at $.45 per share; 25,000 were issued at $.40 per share; and 66,400 were issued at $.30 per share.

No underwriting commissions or discounts were paid with respect to the sales of the unregistered securities described above. In addition, all of the above sales were made in reliance on Rule 701, Regulation D and Section 4(2) under the Securities Act. With regard to the reliance by the Company upon the exemptions set forth in the previous sentence, certain inquiries were made by the Company to establish that such sales qualified for such exemptions from the registration requirements. In particular, the Company confirmed that (i) all offers of sales and sales were made by personal contact from officers or directors of the Company or other persons closely associated with the Company; (ii) each investor made representations that he or she was sophisticated in relation to this investment (and the Company has no reason to believe such representations were incorrect); (iii) each purchaser gave assurance of investment intent and the certificates for the shares bear a legend accordingly; and (iv) offers and sales within any offering were made to a limited number of persons.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
1.1	Underwriting Agreement
3.1	Restated Articles of Incorporation of the Company (to be effective upon effectiveness of Registration Statement)

EXHIBIT NO.	DESCRIPTION
3.2	Restated Bylaws of the Company (to be effective upon effectiveness of Registration Statement)
4.2*	Form of Warrant issued in connection with the sale of Convertible Preferred Stock, Series E
4.3*	Form of Warrant issued in connection with the November 1996 Bridge Financing
4.4*	Amended and Restated Registration Rights Agreement dated December 28, 1995
4.5*	First Amendment to Series E Stock Purchase Agreement and Amended and Restated Registration Rights Agreement dated April 25, 1996
4.6*	Second Amendment to Amended and Restated Registration Rights Agreement dated as of November 1, 1996
4.7*	Second (sic) Amendment to Amended and Restated Registration Rights Agreement dated March 24, 1997
4.8*	Series A Warrant effective as of March 31, 1998 issued to General Electric Capital Corporation
5.1	Opinion of Oppenheimer Wolff & Donnelly LLP
10.1*	Net Lease Agreement dated December 3, 1993 between the Company and Opus Corporation
10.2*	Amendment of Lease dated August 10, 1994 between the Company and Opus Corporation

10.3* Second Amendment to Lease dated May 10, 1995 between the Company and Rushmore Plaza Partners Limited Partnership (successor to Opus Corporation)

10.4* Letter Agreement dated as of October 5, 1995 between the Company and Rushmore Plaza Partners Limited Partnership

10.5* Third Amendment of Lease, Assignment and Assumption of Lease and Consent dated as of January 1, 1996 among the Company, Rushmore Plaza Partners Limited Partnership and Select Comfort Direct Corporation

10.6* Sublease dated as of March 27, 1997 between Select Comfort SC Corporation and Bellsouth Telecommunications, Inc.

10.7* Master Lease Agreement dated August 27, 1996 between Comdisco, Inc. and the Company and Equipment Schedules VL-1 dated August 27, 1996 and VL-2 and VL-3 dated November 11, 1996

10.8* Supply Agreement dated August 23, 1994 between the Company and Supplier(1)

10.9* Equipment Purchase and Software License Agreement dated February 6, 1996 between the Company and Supplier(1)

10.10* Purchase Agreement dated as of March 27, 1997 between the Company and General Electric Capital Corporation

10.11* Senior Subordinated Note dated as of March 27, 1997 in the principal amount of $15,000,000 by the Company in favor of General Electric Capital Corporation

10.12* Consumer Credit Card Program Agreement dated as of May 22, 1997 among the Company, Select Comfort Retail Corporation, Select Comfort Direct Corporation, Select Comfort SC Corporation and Monogram Credit Card Bank of Georgia(1)

EXHIBIT NO. DESCRIPTION

10.13* Major Merchant Agreement dated December 19, 1997 among First National Bank of Omaha and the Company, Select Comfort So. Carolina Corporation, Select Comfort Retail Corporation and Select Comfort Direct Corporation

10.14* 1990 Omnibus Stock Option Plan, as amended

10.15* 1997 Stock Incentive Plan

10.16* Form of Incentive Stock Option Agreement under the 1997 Stock Incentive Plan

10.17* Form of Performance Based Stock Option Agreement under the 1997 Stock Incentive Plan

10.18* Employment Letter Agreement dated April 3, 1997 between the Company and H. Robert Hawthorne

10.19* Employment Letter Agreement dated October 20, 1995 between the Company and Daniel J. McAthie

10.20* Employment Letter Agreement dated July 11, 1995 between the Company and Gregory T. Kliner

10.21* Consulting Agreement and Stock Option Agreement dated April 1, 1996 between the Company and Ervin R. Shames

10.22* Separation Agreement dated February 20, 1997 between the Company and Mark

L. de Naray

10.23* Promissory Note dated February 20, 1997 in favor of the Company from Mark L. de Naray

10.24* Pledge Agreement dated February 20, 1997 between the Company and Mark L. de Naray

10.25* Promissory Note dated April 13, 1998 in favor of the Company from Mark L. de Naray

10.26* Pledge Agreement dated April 13, 1998 between the Company and Mark L. de Naray

10.27* Separation Agreement dated as of July 13, 1998 between the Company and John D. Watson

10.28 Lease Agreement dated September 30, 1998 between the Company and ProLogis Development Services Incorporated

10.29 Select Comfort Corporation Nonqualified Deferred Compensation Plan

21.1* Subsidiaries of the Company

23.1 Independent Auditors' Consent and Report on Financial Statement Schedule of KPMG Peat Marwick LLP

23.2 Consent of Oppenheimer Wolff & Donnelly LLP (included in Exhibit 5.1)

23.3 Consent of Houlihan Valuation Advisors

24.1* Power of Attorney (included on pages II-9 hereto)

27.1 Financial Data Schedule

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* Previously filed.

(1) Confidential treatment has been requested with respect to designated portions contained within this exhibit. Such portions have been omitted and filed separately with the Commission pursuant to Rule 406 under the Securities Act.

(b) Financial Statement Schedules.

SELECT COMFORT CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION		BALANCE AT BEGINNING	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
	--1998 (nine months)	$ 1,901	$ 2,293	$ 1,377	$ 2,817
Allowance for doubtful accounts	--1997	$ 200	$ 2,101	$ 400	$ 1,901
	--1996	$ 261	$ 63	$ 124	$ 200
	--1995	$ 35	$ 237	$ 11	$ 261
Accrued warranty costs					
	--1998 (nine months)	$ 3,257	$ 3,456	$ 2,851	$ 3,862
	--1997	$ 2,036	$ 3,274	$ 2,053	$ 3,257
	--1996	$ 1,390	$ 1,936	$ 1,290	$ 2,036
	--1995	$ 608	$ 1,492	$ 710	$ 1,390

ITEM 17. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the

Registrant pursuant to the Minnesota Business Corporation Act, the Restated Articles of Incorporation or Bylaws of the Registrant, the Underwriting Agreement, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) It will provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

(2) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(3) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Pre-Effective Amendment No. 1 to the Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in Minneapolis, Minnesota on this 29th day of October, 1998.

SELECT COMFORT CORPORATION

By: /s/ H. ROBERT HAWTHORNE

H. Robert Hawthorne
PRESIDENT AND CHIEF EXECUTIVE OFFICER
(PRINCIPAL EXECUTIVE OFFICER)

By: /s/ DANIEL J. MCATHIE

Daniel J. McAthie
EXECUTIVE VICE PRESIDENT, CHIEF FINANCIAL OFFICER, CHIEF OPERATING OFFICER AND SECRETARY (PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)

Pursuant to the requirements of the Securities Act of 1933, this Pre-Effective Amendment No. 1 to the Registration Statement has been signed by the following persons in the capacities indicated, on October 29, 1998.

NAME AND SIGNATURE	TITLE
/s/ H. ROBERT HAWTHORNE H. Robert Hawthorne	President, Chief Executive Officer and Director
* Ervin R. Shames	Chairman of the Board
* Thomas J. Albani	Director
* Patrick A. Hopf	Director
* Christopher P. Kirchen	Director

NAME AND SIGNATURE	TITLE
* David T. Kollat	Director
* Kenneth A. Macke	Director
* Jean-Michel Valette	Director
/s/ H. ROBERT HAWTHORNE H. Robert Hawthorne	Attorney-in-fact

SELECT COMFORT CORPORATION
EXHIBIT INDEX TO REGISTRATION STATEMENT ON FORM S-1

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21.1*	Subsidiaries of the Company	
23.1	Independent Auditors' Consent and Report on Financial Statement Schedule of KPMG Peat Marwick LLP	
23.2	Consent of Oppenheimer Wolff & Donnelly LLP (included in Exhibit 5.1)	

EXHIBIT NO.	DESCRIPTION	METHOD OF FILING
23.3	Consent of Houlihan Valuation Advisors	
24.1*	Power of Attorney (included on pages II-9 hereto)	
27.1	Financial Data Schedule	

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* Previously filed.

(1) Confidential treatment has been requested with respect to designated portions contained within this exhibit. Such portions have been omitted and filed with the Commission pursuant to Rule 406 under the Securities Act.

EXHIBIT 1.1
OH&S DRAFT - OCTOBER 28, 1998

SELECT COMFORT CORPORATION

4,000,000 SHARES (1)

COMMON STOCK

UNDERWRITING AGREEMENT

November __, 1998

HAMBRECHT & QUIST LLC
BANCBOSTON ROBERTSON STEPHENS INC.
PIPER JAFFRAY, INC.
c/o Hambrecht & Quist LLC
One Bush Street
San Francisco, CA 94104

Ladies and Gentlemen:

Select Comfort Corporation, a Minnesota corporation (herein called the Company), proposes to issue and sell 2,800,000 shares of its authorized but unissued Common Stock, par value $0.01 per share (herein called the Common Stock), and the shareholders of the Company named in Schedule II hereto (herein collectively called the Selling Securityholders) propose to sell an aggregate of 1,200,000 shares of Common Stock of the Company (said 4,000,000 shares of Common Stock being herein called the Underwritten Stock). The Selling Securityholders propose to grant to the Underwriters (as hereinafter defined) an option to purchase up to 600,000 additional shares of Common Stock (herein called the Option Stock and with the Underwritten Stock herein collectively called the Stock). The Common Stock is more fully described in the Registration Statement and the Prospectus hereinafter mentioned.

The Company and the Selling Securityholders severally hereby confirm the agreements made with respect to the purchase of the Stock by the several underwriters, for whom you are acting, named in Schedule I hereto (herein collectively called the Underwriters, which term shall also include any underwriter purchasing Stock pursuant to Section 3(b) hereof). You represent and warrant that you have been authorized by each of the other Underwriters to enter into this Agreement on its behalf and to act for it in the manner herein provided.

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(1) Plus an option to purchase from the Selling Securityholders up to 600,000 additional shares to cover over-allotments.

1. REGISTRATION STATEMENT. The Company has filed with the Securities and Exchange Commission (herein called the Commission) a registration statement on Form S-1 (No. 333-62793), including the related preliminary prospectus, for the registration under the Securities Act of 1933, as amended (herein called the Securities Act) of the Stock. Copies of such registration statement and of each amendment thereto, if any, including the related preliminary prospectus (meeting the requirements of Rule 430A of the rules and regulations of the Commission) heretofore filed by the Company with the Commission have been delivered to you.

The term Registration Statement as used in this Agreement shall mean such registration statement, including all exhibits and financial statements, all information omitted therefrom in reliance upon Rule 430A and contained in the Prospectus referred to below, in the form in which it became effective, and any registration statement filed pursuant to Rule 462(b) of the rules and regulations of the Commission with respect to the Stock (herein called a Rule 462(b) registration statement) and, in the event of any amendment thereto after the effective date of such registration statement (herein called the Effective

Date), shall also mean (from and after the effectiveness of such amendment) such registration statement as so amended (including any Rule 462(b) registration statement). The term Prospectus as used in this Agreement shall mean the prospectus relating to the Stock first filed with the Commission pursuant to Rule 424(b) and Rule 430A (or if no such filing is required, as included in the Registration Statement) and, in the event of any supplement or amendment to such prospectus after the Effective Date, shall also mean (from and after the filing with the Commission of such supplement or the effectiveness of such amendment) such prospectus as so supplemented or amended. The term Preliminary Prospectus as used in this Agreement shall mean each preliminary prospectus included in such registration statement prior to the time it becomes effective.

The Registration Statement has been declared effective under the Securities Act, and no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement. The Company has caused to be delivered to you copies of each Preliminary Prospectus and has consented to the use of such copies for the purposes permitted by the Securities Act.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SELLING SECURITYHOLDERS.

(a) The Company hereby represents and warrants as follows:

(i) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has full corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement and the Prospectus and as being conducted, and is duly qualified as a foreign corporation and in good standing in all jurisdictions in which the character of the property owned or leased or the nature of the business transacted by it makes qualification necessary (except where the failure to be so qualified would not have a material adverse effect on the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole).

(ii) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any materially adverse change in the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, other than as set forth in the Registration Statement and the Prospectus, and since such dates, except in the ordinary course of business, neither the Company nor any of its subsidiaries has entered into any material transaction not referred to in the Registration Statement and the Prospectus.

(iii) The Registration Statement and the Prospectus comply, and on the Closing Date (as hereinafter defined) and any later date on which Option Stock is to be purchased, the Prospectus will comply, in all material respects, with the provisions of the Securities Act and the rules and regulations of the Commission thereunder; on the Effective Date, the Registration Statement did not contain any untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date the Prospectus did not and, on the Closing Date and any later date on which Option Stock is to be purchased, will not, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that none of the representations and warranties in this subparagraph (iii) shall apply to statements in, or omissions from, the Registration Statement or the Prospectus made in reliance upon and in conformity with information herein or otherwise furnished in writing to the Company by or on behalf of the Underwriters for use in the Registration Statement or the Prospectus.

(iv) The Stock is duly and validly authorized, is (or, in the case of shares of the Stock to be sold by the Company, will be, when issued and sold to the Underwriters as provided herein) duly and validly issued, fully

paid and nonassessable and conforms to the description thereof in the Prospectus. No further approval or authority of the shareholders or the Board of Directors of the Company will be required for the transfer and sale of the Stock to be sold by the Selling Securityholders or the issuance and sale of the Stock as contemplated herein.

(v) Prior to the Closing Date, the Stock will be authorized for listing by the Nasdaq National Market upon official notice of issuance.

(vi) There are no persons with registration or other similar rights to have any equity or debt securities registered for sale under the Registration Statement or included in the offering contemplated by this Agreement, other than the Selling Securityholders with respect to the Stock included in the Registration Statement, except for such rights as have been duly waived.

(vii) KPMG Peat Marwick LLP, who have expressed their opinion with respect to the financial statements (which term as used in this Agreement includes the related notes thereto) filed with the Commission as a part of the Registration Statement and

included in the Prospectus, are independent public or certified public accountants as required by the Securities Act.

(viii) The consolidated financial statements filed with the Commission as a part of the Registration Statement and included in the Prospectus present fairly the consolidated financial position of the Company and its subsidiaries as of and at the dates indicated and the results of their operations and cash flows for the periods specified subject, in the case of unaudited financial statements, to normal year-end adjustments. Such financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved, except as may be expressly stated in the related notes thereto. No other financial statements or supporting schedules are required to be included in the Registration Statement. The financial data set forth in the Prospectus under the captions "Prospectus Summary," "Summary Consolidated Financial Information," "Selected Consolidated Financial Data" and "Capitalization" fairly present the information set forth therein on a basis consistent with that of the audited financial statements contained in the Registration Statement.

(ix) The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" (other than for subsequent issuances, if any, pursuant to employee benefit plans described in the Prospectus or upon exercise of outstanding options or warrants described in the Prospectus). All of the issued and outstanding shares of Common Stock have been duly authorized and validly issued, are fully paid and nonassessable and have been issued in compliance with federal and state securities laws. None of the outstanding shares of Common Stock were issued in violation of any preemptive rights, rights of first refusal or other similar rights to subscribe for or purchase securities of the Company. There are no authorized or outstanding options, warrants, preemptive rights, rights of first refusal or other rights to purchase, or equity or debt securities convertible into or exchangeable or exercisable for, any capital stock of the Company or any of its subsidiaries other than those described in the Prospectus. The description of the Company's stock option, stock bonus and other stock plans or arrangements, and the options or other rights granted thereunder, set forth in the Prospectus accurately and fairly presents the information required to be shown with respect to such plans, arrangements, options and rights.

(x) The Company's execution, delivery and performance of this Agreement and consummation of the transactions contemplated hereby and by the Prospectus (i) have been duly authorized by all necessary corporate action and will not result in any violation of the provisions of the Articles of Incorporation or Bylaws of the Company or any subsidiary, (ii) will not conflict with or result in the breach of any of the terms or provisions of any material agreement, franchise, license, indenture, mortgage, deed of trust, or other material instrument to which the Company or its subsidiaries is a party or by which the Company or its subsidiaries

or its or their property may be bound or affected, except where such conflict or breach would not have a material adverse effect on the business, properties, financial condition or results of operations of the Company and its subsidiaries taken as a whole, or (iii) violate or conflict with any order, rule or regulation applicable to the Company or its subsidiaries of any court or regulatory body,

administrative agency or other governmental body having jurisdiction over the Company or its subsidiaries, or any order of any court or governmental agency or authority entered in any proceeding to which the Company or its subsidiaries was or is now a party or by which it or they are bound.

(xi) There are no legal or governmental actions, suits or proceedings pending or, to the best of the Company's knowledge, threatened (i) against or affecting the Company or any of its subsidiaries, (ii) which has as the subject thereof any officer or director of the Company in their capacity as such, or property owned or leased by the Company or any of its subsidiaries or (iii) relating to environmental or discrimination matters, where in any such case (A) there is a reasonable possibility that such action, suit or proceeding might be determined adversely to the Company or such subsidiary and (B) any such action, suit or proceeding, if so determined adversely, would reasonably be expected to result in a material adverse change in the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, or adversely affect the consummation of the transactions contemplated by this Agreement. No material labor dispute with the employees of the Company or any of its subsidiaries, or, to the best of the Company's knowledge, with the employees of any principal supplier of the Company, exists or, to the best of the Company's knowledge, is threatened or imminent.

(xii) The Company and its subsidiaries own or possess sufficient trademarks, trade names, patents, copyrights, licenses, approvals, trade secrets and other similar rights (collectively, "Intellectual Property Rights") reasonably necessary to conduct their respective businesses as now conducted; and the expected expiration of any of such Intellectual Property Rights would not result in a material adverse change in the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole. Neither the Company nor any of its subsidiaries has received any notice of infringement or conflict with asserted Intellectual Property Rights of others, which infringement or conflict, if the subject of an unfavorable decision, would result in a material adverse change in the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole.

(xiii) The conduct of the business of the Company and each of its subsidiaries is in compliance in all respects with applicable federal, state, local and foreign laws and regulations, except where the failure to be in compliance would not have a material adverse effect upon the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole.

(xiv) The Company and each of its subsidiaries has good and marketable title to all the properties and assets reflected as owned in the financial statements referred to above, in each case free and clear of any security interests, mortgages, liens, encumbrances, equities, claims and other defects, except such as do not materially and adversely affect the value of such property and do not materially interfere with the use made or proposed to be made of such property by the Company or such subsidiary. The real property, improvements, equipment and personal property held under lease by the Company or any subsidiary are held under valid and enforceable leases, with such

exceptions as are not material and do not materially interfere with the use made or proposed to be made of such real property, improvements, equipment or personal property by the Company or such subsidiary.

(xv) The Company and its consolidated subsidiaries have filed all necessary federal, state and foreign income and franchise tax returns or have properly requested extensions thereof and have paid all taxes required to have been paid by any of them and, if due and payable, any related or similar assessment, fine or penalty levied against any of them The Company has made adequate charges, accruals and reserves in the applicable financial statements referred to above in respect of all federal, state and foreign income and franchise taxes for all periods as to which the tax liability of the Company or any of its consolidated subsidiaries has not been finally determined.

(xvi) Neither the Company nor any subsidiary is, and after receipt of payment for the Stock will be, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(xvii) The Company, for itself and each of its subsidiaries, maintains insurance of the types and in the amounts generally deemed adequate for their respective businesses and consistent with insurance maintained by similar companies in similar businesses, including without limitation, general liability insurance and insurance covering all real and personal property owned or leased by the Company and each of its subsidiaries against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, all of which insurance is in full force and effect.

(xviii) The Company has not taken and will not take, directly or indirectly, any action designed to or that might be reasonably expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Stock.

(xix) There are no business relationships or related-party transactions involving the Company or any other person required to be described in the Prospectus which have not been described as required.

(xx) Neither the Company nor any of its subsidiaries, nor, to the best of the Company's knowledge, any employee or agent of the Company or any subsidiary, has made any contribution or other payment to any official of, or candidate for, any federal, state or foreign office in violation of any law or of the character required to be disclosed in the Prospectus.

(xxi) Each of the Company and its subsidiaries maintains a system of accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles as applied in the United States and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded

accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxii) Each of the Company and its subsidiaries (i) is in compliance with any and all applicable United States, state and local environmental laws, rules, regulations, treaties, statutes and codes promulgated by any and all governmental authorities relating to the protection of human health and safety, the environment or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) has received all permits, licenses or other approvals required of it under applicable Environmental Laws to conduct its business as currently conducted, and (iii) is in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or noncompliance with terms or conditions of any permit, license or approval would not, individually or in the aggregate, have a material adverse effect on the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole. No action, proceeding, revocation proceeding, writ, injunction or claim is pending or, to the best of the Company's knowledge, threatened relating to the Environmental Laws or to the Company's or its subsidiaries' activities

involving Hazardous Materials. "Hazardous Materials" means any material or substance (i) that is prohibited or regulated by any environmental law, rule, regulation, order, treaty, statute or code promulgated by any governmental authority, or any amendment or modification thereto, or (ii) that has been designated or regulated by any governmental authority as radioactive, toxic, hazardous or otherwise a danger to health, reproduction or the environment.

(xxiii) The Company is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"); no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company would have any liability; the Company has not incurred and does not expect to incur liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder (the "Code"); and each "pension plan" for which the Company would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(xxiv) There is no material document of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement which is not described or filed as required.

(b) Each of the Selling Securityholders, severally and not jointly, hereby represents and warrants as follows:

(i) Such Selling Securityholder has good and marketable title to all the shares of Stock to be sold by such Selling Securityholder hereunder, free and clear of all liens, encumbrances, equities, security interests and claims whatsoever, with full right and authority to deliver the same hereunder, subject, in the case of each Selling Securityholder, to the rights of Norwest Bank Minnesota, N.A., as Custodian (herein called the Custodian), and that upon the delivery of and payment for such shares of the Stock hereunder, the several Underwriters will receive good and marketable title thereto, free and clear of all liens, encumbrances, equities, security interests and claims whatsoever.

(ii) Certificates in negotiable form for the shares of the Stock to be sold by such Selling Securityholder have been placed in custody under a Custody Agreement for delivery under this Agreement with the Custodian; such Selling Securityholder specifically agrees that the shares of the Stock represented by the certificates so held in custody for such Selling Securityholder are subject to the interests of the several Underwriters and the Company, that the arrangements made by such Selling Securityholder for such custody, including the Power of Attorney provided for in such Custody Agreement, are to that extent irrevocable, and that the obligations of such Selling Securityholder shall not be terminated by any act of such Selling Securityholder or by operation of law, whether by the death or incapacity of such Selling Securityholder (or, in the case of a Selling Securityholder that is not an individual, the dissolution or liquidation of such Selling Securityholder) or the occurrence of any other event; if any such death, incapacity, dissolution, liquidation or other such event should occur before the delivery of such shares of the Stock hereunder, certificates for such shares of the Stock shall be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such death, incapacity, dissolution, liquidation or other event had not occurred, regardless of whether the Custodian shall have received notice of such death, incapacity, dissolution, liquidation or other event.

(iii) The performance of this Agreement and the Custody Agreement and the consummation of the transactions contemplated hereby and thereby will not (i) result in a breach or violation by such Selling Securityholder of any of the terms or provisions of, or constitute a default by such Selling Securityholder under, any material agreement, franchise, license, indenture, mortgage, deed of trust, or other material instrument to which such Selling

Securityholder is a party or by which such Selling Securityholder or any of its property may be bound or affected, except where such conflict or breach would not have a material adverse effect on the business, properties, financial condition or results of operations of the Company and its subsidiaries taken as a whole, or (ii) violate or conflict with any order, rule or regulation applicable to such Selling Securityholder of any court or regulatory body, administrative agency or other governmental body having jurisdiction over the Company or its subsidiaries, or any order of any court or governmental agency or authority entered in any proceeding to which such Selling Securityholder was or is now a party or by which it is bound.

(iv) Such Selling Securityholder has not taken and will not take, directly or indirectly, any action designed to stabilize or manipulate, or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation, of the price of

any security of the Company to facilitate the sale or resale of the Stock to be sold by such Selling Securityholder.

(v) The Registration Statement and the Prospectus, insofar as it has related to such Selling Securityholder, has conformed in all material respects to the requirements of the Securities Act and the rules and regulations of the Commission thereunder and has not included any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made.

3. PURCHASE OF THE STOCK BY THE UNDERWRITERS.

(a) On the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Company agrees to issue and sell 2,800,000 shares of the Underwritten Stock to the several Underwriters, each Selling Securityholder agrees to sell to the several Underwriters the number of shares of the Underwritten Stock set forth in Schedule II opposite the name of such Selling Securityholder, and each of the Underwriters agrees to purchase from the Company and the Selling Securityholders the respective aggregate number of shares of Underwritten Stock set forth opposite its name in Schedule I. The price at which such shares of Underwritten Stock shall be sold by the Company and the Selling Securityholders and purchased by the several Underwriters shall be $___ per share. The obligation of each Underwriter to the Company and each of the Selling Securityholders shall be to purchase from the Company and the Selling Securityholders that number of shares of the Underwritten Stock which represents the same proportion of the total number of shares of the Underwritten Stock to be sold by each of the Company and the Selling Securityholders pursuant to this Agreement as the number of shares of the Underwritten Stock set forth opposite the name of such Underwriter in Schedule I hereto represents of the total number of shares of the Underwritten Stock to be purchased by all Underwriters pursuant to this Agreement, as adjusted by you in such manner as you deem advisable to avoid fractional shares. In making this Agreement, each Underwriter is contracting severally and not jointly; except as provided in paragraphs (b) and (c) of this Section 3, the agreement of each Underwriter is to purchase only the respective number of shares of the Underwritten Stock specified in Schedule I.

(b) If for any reason one or more of the Underwriters shall fail or refuse (otherwise than for a reason sufficient to justify the termination of this Agreement under the provisions of Section 8 or 9 hereof) to purchase and pay for the number of shares of the Stock agreed to be purchased by such Underwriter or Underwriters, the Company or the Selling Securityholders shall immediately give notice thereof to you, and the non-defaulting Underwriters shall have the right within 24 hours after the receipt by you of such notice to purchase, or procure one or more other Underwriters to purchase, in such proportions as may be agreed upon between you and such purchasing Underwriter or Underwriters and upon the terms herein set forth, all or any part of the shares of the Stock which such defaulting Underwriter or Underwriters agreed to purchase. If the non-defaulting Underwriters fail so to make such arrangements with respect to all such shares and portion, the number of shares of the Stock which each non-defaulting Underwriter is otherwise obligated to purchase under this Agreement shall be automatically increased on a pro rata basis to absorb the remaining shares and portion which the defaulting Underwriter or Underwriters agreed to purchase; PROVIDED, HOWEVER,

that the non-defaulting Underwriters shall

not be obligated to purchase the shares and portion which the defaulting Underwriter or Underwriters agreed to purchase if the aggregate number of such shares of the Stock exceeds 10% of the total number of shares of the Stock which all Underwriters agreed to purchase hereunder. If the total number of shares of the Stock which the defaulting Underwriter or Underwriters agreed to purchase shall not be purchased or absorbed in accordance with the two preceding sentences, the Company and the Selling Securityholders shall have the right, within 24 hours next succeeding the 24-hour period above referred to, to make arrangements with other underwriters or purchasers satisfactory to you for purchase of such shares and portion on the terms herein set forth. In any such case, either you or the Company and the Selling Securityholders shall have the right to postpone the Closing Date determined as provided in Section 5 hereof for not more than seven business days after the date originally fixed as the Closing Date pursuant to said Section 5 in order that any necessary changes in the Registration Statement, the Prospectus or any other documents or arrangements may be made. If neither the non-defaulting Underwriters nor the Company and the Selling Securityholders shall make arrangements within the 24-hour periods stated above for the purchase of all the shares of the Stock which the defaulting Underwriter or Underwriters agreed to purchase hereunder, this Agreement shall be terminated without further act or deed and without any liability on the part of the Company or the Selling Securityholders to any non-defaulting Underwriter and without any liability on the part of any non-defaulting Underwriter to the Company or the Selling Securityholders. Nothing in this paragraph (b), and no action taken hereunder, shall relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

(c) On the basis of the representations, warranties and covenants herein contained, and subject to the terms and conditions herein set forth, the Selling Securityholders grant an option to the several Underwriters to purchase, severally and not jointly, up to 600,000 shares in the aggregate of the Option Stock from the Selling Securityholders at the same price per share as the Underwriters shall pay for the Underwritten Stock. The maximum number of shares of Option Stock to be sold by such Selling Securityholders is set forth opposite their respective names in Schedule II. Said option may be exercised only to cover over-allotments in the sale of the Underwritten Stock by the Underwriters and may be exercised in whole or in part at any time (but not more than once) on or before the thirtieth day after the date of this Agreement upon written or telegraphic notice by you to the Company setting forth the aggregate number of shares of the Option Stock as to which the several Underwriters are exercising the option. Delivery of certificates for the shares of Option Stock, and payment therefor, shall be made as provided in Section 5 hereof. If the option granted hereby is exercised in part, the respective number of Option Shares to be sold by the Selling Securityholders listed on Schedule II shall be determined on a pro rata basis according to the number of shares of Option Stock to be sold by each such Selling Securityholder and the total aggregate number of shares of Option Stock to be sold hereunder, as adjusted by you in such manner as you deem advisable to avoid fractional shares. The number of shares of the Option Stock to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Stock to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Stock, as adjusted by you in such manner as you deem advisable to avoid fractional shares.

4. OFFERING BY UNDERWRITERS.

(a) The terms of the initial public offering by the Underwriters of the Stock to be purchased by them shall be as set forth in the Prospectus. The Underwriters may from time to time change the public offering price after the closing of the initial public offering and increase or decrease the concessions and discounts to dealers as they may determine.

(b) The information set forth in the last paragraph on the front cover

page and under "Underwriting" in the Registration Statement, any Preliminary Prospectus and the Prospectus relating to the Stock filed by the Company (insofar as such information relates to the Underwriters) constitutes the only information furnished by the Underwriters to the Company for inclusion in the Registration Statement, any Preliminary Prospectus, and the Prospectus, and you on behalf of the respective Underwriters represent and warrant to the Company that the statements made therein are correct.

5. DELIVERY OF AND PAYMENT FOR THE STOCK.

(a) Delivery of certificates for the shares of the Underwritten Stock and the Option Stock (if the option granted by Section 3(c) hereof shall have been exercised not later than 7:00 a.m., San Francisco time, on the date two business days preceding the Closing Date), and payment therefor, shall be made at the office of Oppenheimer Wolff & Donnelly LLP, 3400 Plaza VII, 45 South Seventh Street, Minneapolis, Minnesota, at 7:00 a.m., San Francisco time, on the fourth business day after the date of this Agreement, or at such time on such other day, not later than seven full business days after such fourth business day, as shall be agreed upon in writing by the Company, the Selling Securityholders and you. The date and hour of such delivery and payment (which may be postponed as provided in Section 3(b) hereof) are herein called the Closing Date.

(b) If the option granted by Section 3(c) hereof shall be exercised after 7:00 a.m., San Francisco time, on the date two business days preceding the Closing Date, delivery of certificates for the shares of Option Stock, and payment therefor, shall be made at the office of Oppenheimer Wolff & Donnelly LLP, 3400 Plaza VII, 45 South Seventh Street, Minneapolis, Minnesota, at 7:00 a.m., San Francisco time, on the third business day after the exercise of such option.

(c) Payment for the Stock purchased from the Company shall be made to the Company or its order, and payment for the Stock purchased from the Selling Securityholders shall be made to the Custodian, for the account of the Selling Securityholders, in each case by one or more certified or official bank check or checks or a wire transfer or transfers in same day funds. Such payment shall be made upon delivery of certificates for the Stock to you for the respective accounts of the several Underwriters against receipt therefor signed by you. Certificates for the Stock to be delivered to you shall be registered in such name or names and shall be in such denominations as you may request at least one business day before the Closing Date, in the case of Underwritten Stock, and at least one business day prior to the purchase thereof, in the case of the Option Stock. Such certificates will be made available to the Underwriters for inspection, checking and packaging at the offices of Lewco Securities Corporation, 2 Broadway, New York, New York 10004 on the business day prior to the Closing

Date or, in the case of the Option Stock, by 3:00 p.m., New York time, on the business day preceding the date of purchase.

It is understood that you, individually and not on behalf of the Underwriters, may (but shall not be obligated to) make payment to the Company and the Selling Securityholders for shares to be purchased by any Underwriter whose check shall not have been received by you on the Closing Date or any later date on which Option Stock is purchased for the account of such Underwriter. Any such payment by you shall not relieve such Underwriter from any of its obligations hereunder.

6. FURTHER AGREEMENTS OF THE COMPANY AND THE SELLING SECURITYHOLDERS. Each of the Company and the Selling Securityholders respectively covenants and agrees as follows:

(a) The Company will (i) prepare and timely file with the Commission under Rule 424(b) a Prospectus containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A and (ii) not file any amendment to the Registration Statement or supplement to the Prospectus of which you shall not previously have been advised and furnished with a copy or to which you shall have reasonably objected in writing or which is not in compliance with the Securities Act or the rules and regulations of the Commission.

(b) The Company will promptly notify each Underwriter in the event of

(i) the request by the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, (ii) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement, (iii) the institution or notice of intended institution of any action or proceeding for that purpose, (iv) the receipt by the Company of any notification with respect to the suspension of the qualification of the Stock for sale in any jurisdiction, or (v) the receipt by it of notice of the initiation or threatening of any proceeding for such purpose. The Company and the Selling Securityholders will make every reasonable effort to prevent the issuance of such a stop order and, if such an order shall at any time be issued, to obtain the withdrawal thereof at the earliest possible moment.

(c) The Company will (i) on or before the Closing Date, deliver to you a signed copy of the Registration Statement as originally filed and of each amendment thereto filed prior to the time the Registration Statement becomes effective and, promptly upon the filing thereof, a signed copy of each post-effective amendment, if any, to the Registration Statement (together with, in each case, all exhibits thereto unless previously furnished to you) and will also deliver to you, for distribution to the Underwriters, a sufficient number of additional conformed copies of each of the foregoing (but without exhibits) so that one copy of each may be distributed to each Underwriter, (ii) as promptly as possible deliver to you and send to the several Underwriters, at such office or offices as you may designate, as many copies of the Prospectus as you may reasonably request, and (iii) thereafter from time to time during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, likewise send to the Underwriters as many additional copies of the Prospectus and as many copies of any supplement to the Prospectus and of any amended prospectus, filed by the Company with the Commission, as you may reasonably request for the purposes contemplated by the Securities Act.

(d) If at any time during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer any event relating to or affecting the Company, or of which the Company shall be advised in writing by you, shall occur as a result of which it is necessary, in the opinion of counsel for the Company or of counsel for the Underwriters, to supplement or amend the Prospectus in order to make the Prospectus not misleading in the light of the circumstances existing at the time it is delivered to a purchaser of the Stock, the Company will forthwith prepare and file with the Commission a supplement to the Prospectus or an amended prospectus so that the Prospectus as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time such Prospectus is delivered to such purchaser, not misleading. If, after the initial public offering of the Stock by the Underwriters and during such period, the Underwriters shall propose to vary the terms of offering thereof by reason of changes in general market conditions or otherwise, you will advise the Company in writing of the proposed variation, and, if in the opinion either of counsel for the Company or of counsel for the Underwriters such proposed variation requires that the Prospectus be supplemented or amended, the Company will forthwith prepare and file with the Commission a supplement to the Prospectus or an amended prospectus setting forth such variation. The Company authorizes the Underwriters and all dealers to whom any of the Stock may be sold by the several Underwriters to use the Prospectus, as from time to time amended or supplemented, in connection with the sale of the Stock in accordance with the applicable provisions of the Securities Act and the applicable rules and regulations thereunder for such period.

(e) Prior to the filing thereof with the Commission, the Company will submit to you, for your information, a copy of any post-effective amendment to the Registration Statement and any supplement to the Prospectus or any amended prospectus proposed to be filed.

(f) The Company will cooperate, when and as requested by you, in the qualification of the Stock for offer and sale under the securities or blue sky laws of such jurisdictions as you may designate and, during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, in keeping such qualifications in good standing under said securities or blue sky laws; PROVIDED, HOWEVER, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation in any jurisdiction in which it is not so qualified. The Company will, from time

to time, prepare and file such statements, reports, and other documents as are or may be required to continue such qualifications in effect for so long a period as you may reasonably request for distribution of the Stock.

(g) During a period of five years commencing with the date hereof, the Company will furnish to you, and to each Underwriter who may so request in writing, copies of all periodic and special reports furnished to shareholders of the Company and of all information, documents and reports filed with the Commission.

(h) Not later than the 45th day following the end of the fiscal quarter first occurring after the first anniversary of the Effective Date, the Company will make generally available to its security holders an earnings statement in accordance with Section 11(a) of the Securities Act and Rule 158 thereunder.

(i) The Company agrees to pay all costs and expenses incident to the performance of its and the Selling Securityholders' obligations (other than the Selling Securityholders' obligations relating to the underwriting discount applicable to sales by the Selling Securityholders, personal taxes and any fees and expenses of counsel engaged by the Selling Securityholders, which discount, transfer taxes, personal taxes and fees and expenses of such counsel shall be paid by such Selling Securityholder) under this Agreement, including all costs and expenses incident to (i) the preparation, printing and filing with the Commission and the National Association of Securities Dealers, Inc. ("NASD") of the Registration Statement, any Preliminary Prospectus and the Prospectus, (ii) the furnishing to the Underwriters of copies of any Preliminary Prospectus and of the several documents required by paragraph (c) of this Section 6 to be so furnished, (iii) the printing of this Agreement and related documents delivered to the Underwriters, (iv) the preparation, printing and filing of all supplements and amendments to the Prospectus referred to in paragraph (d) of this Section 6, (v) the furnishing to you and the Underwriters of the reports and information referred to in paragraph (g) of this Section 6 and (vi) the printing and issuance of stock certificates, including the transfer agent's fees. The Selling Securityholders will pay any transfer taxes incident to the transfer to the Underwriters of the shares the Stock being sold by the Selling Securityholders.

(j) The Company agrees to reimburse you, for the account of the several Underwriters, for blue sky fees and related disbursements (including counsel fees and disbursements and cost of printing memoranda for the Underwriters) paid by or for the account of the Underwriters or their counsel in qualifying the Stock under state securities or blue sky laws and in the review of the offering by the NASD.

(k) The provisions of paragraphs (i) and (j) of this Section are intended to relieve the Underwriters from the payment of the expenses and costs which the Company and the Selling Securityholders hereby agree to pay and shall not affect any agreement which the Company and the Selling Securityholders may make, or may have made, for the sharing of any such expenses and costs.

(l) The Company and each of the Selling Securityholders hereby agrees that, without the prior written consent of Hambrecht & Quist LLC on behalf of the Underwriters, the Company or such Selling Securityholder, as the case may be, will not, for a period of 180 days following the commencement of the public offering of the Stock by the Underwriters, directly or indirectly, (i) sell, offer, contract to sell, make any short sale, pledge, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for or any rights to purchase or acquire Common Stock or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences or ownership of Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Stock to be sold to the Underwriters pursuant to this Agreement, (B) shares of Common Stock issued by the Company upon the exercise of options outstanding as of the date hereof granted under the stock option plans of the Company (the "Option Plans") or upon the exercise of warrants outstanding as of the date hereof, all as described in footnote (1) to the table under the caption "Capitalization" in the

Preliminary Prospectus, and (C) options to purchase Common Stock granted under the Option Plans.

(m) If at any time during the 25-day period after the Registration Statement becomes effective any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price for the Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of, and disseminate a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

7. INDEMNIFICATION AND CONTRIBUTION.

(a) Subject to the provisions of paragraph (f) of this Section 7, the Company and the Selling Securityholders jointly and severally agree to indemnify and hold harmless each Underwriter and each person (including each partner or officer thereof) who controls any Underwriter within the meaning of Section 15 of the Securities Act from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Securities Exchange Act of 1934, as amended (herein called the Exchange Act), or the common law or otherwise, and the Company and the Selling Securityholders jointly and severally agree to reimburse each such Underwriter and controlling person for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus as part thereof and any Rule 462(b) registration statement) or any post-effective amendment thereto (including any Rule 462(b) registration statement), or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus or the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that (1) the indemnity agreements of the Company and the Selling Securityholders contained in this paragraph (a) shall not apply to any such losses, claims, damages, liabilities or expenses if such statement or omission was made in reliance upon and in conformity with information furnished as herein stated or otherwise furnished in writing to the Company by or on behalf of any Underwriter for use in any Preliminary Prospectus or the Registration Statement or the Prospectus or any such amendment thereof or supplement thereto, (2) the indemnity agreement contained in this paragraph (a) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages, liabilities or expenses purchased the Stock which is the subject thereof (or to the benefit of any person

controlling such Underwriter) if at or prior to the written confirmation of the sale of such Stock a copy of the Prospectus (or the Prospectus as amended or supplemented) was not sent or delivered to such person and the untrue statement or omission of a material fact contained in such Preliminary Prospectus was corrected in the Prospectus (or the Prospectus as amended or supplemented) unless the failure is the result of noncompliance by the Company with paragraph (c) of Section 6 hereof. The indemnity agreements of the Company and the Selling Securityholders contained in this paragraph (a) and the representations and warranties of the Company and the Selling Securityholders contained in Section 2 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of

any indemnified party and shall survive the delivery of and payment for the Stock.

(b) Each Underwriter severally agrees to indemnify and hold harmless the Company, each of its officers who signs the Registration Statement on his own behalf or pursuant to a power of attorney, each of its directors, each other Underwriter and each person (including each partner or officer thereof) who controls the Company or any such other Underwriter within the meaning of Section 15 of the Securities Act, and the Selling Securityholders from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Exchange Act, or the common law or otherwise and to reimburse each of them for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus as part thereof and any Rule 462(b) registration statement) or any post-effective amendment thereto (including any Rule 462(b) registration statement) or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) any untrue statement or alleged untrue statement of a material fact contained in the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, if such statement or omission was made in reliance upon and in conformity with information furnished as herein stated or otherwise furnished in writing to the Company by or on behalf of such indemnifying Underwriter for use in the Registration Statement or the Prospectus or any such amendment thereof or supplement thereto. The indemnity agreement of each Underwriter contained in this paragraph (b) shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Stock.

(c) Each party indemnified under the provisions of paragraphs (a) or (b) of this Section 7 agrees that, upon the service of a summons or other initial legal process upon it in any action or suit instituted against it or upon its receipt of written notification of the commencement of any investigation or inquiry of, or proceeding against, it in respect of which indemnity may be sought on account of any indemnity agreement contained in such paragraphs, it will promptly give written notice (herein called the Notice) of such service or notification to the party or parties

from whom indemnification may be sought hereunder. No indemnification provided for in such paragraphs shall be available to any party who shall fail so to give the Notice if the party to whom such Notice was not given was unaware of the action, suit, investigation, inquiry or proceeding to which the Notice would have related and was prejudiced by the failure to give the Notice, but the omission so to notify such indemnifying party or parties of any such service or notification shall not relieve such indemnifying party or parties from any liability which it or they may have to the indemnified party for contribution or otherwise than on account of such indemnity agreement. Any indemnifying party shall be entitled at its own expense to participate in the defense of any action, suit or proceeding against, or investigation or inquiry of, an indemnified party. Any indemnifying party shall be entitled, if it so elects within a reasonable time after receipt of the Notice by giving written notice (herein called the Notice of Defense) to the indemnified party, to assume (alone or in conjunction with any other indemnifying party or parties) the entire defense of such action, suit, investigation, inquiry or proceeding, in which event such defense shall be conducted, at the expense of the indemnifying party or parties, by counsel chosen by such indemnifying party or parties and reasonably satisfactory to the indemnified party or parties; PROVIDED, HOWEVER, that (i) if the indemnified party or parties reasonably determine that there may be a conflict between the positions of the indemnifying party or parties and of the indemnified party or parties in conducting the defense of such action,

suit, investigation, inquiry or proceeding or that there may be legal defenses available to such indemnified party or parties different from or in addition to those available to the indemnifying party or parties, then counsel for the indemnified party or parties shall be entitled to conduct the defense to the extent reasonably determined by such counsel to be necessary to protect the interests of the indemnified party or parties and (ii) in any event, the indemnified party or parties shall be entitled to have counsel chosen by such indemnified party or parties participate in, but not conduct, the defense. If, within a reasonable time after receipt of the Notice, an indemnifying party gives a Notice of Defense and the counsel chosen by the indemnifying party or parties is reasonably satisfactory to the indemnified party or parties, the indemnifying party or parties will not be liable under paragraphs (a) through (c) of this Section 7 for any legal or other expenses subsequently incurred by the indemnified party or parties in connection with the defense of the action, suit, investigation, inquiry or proceeding, except that (A) the indemnifying party or parties shall bear the legal and other expenses incurred in connection with the conduct of the defense as referred to in clause (i) of the proviso to the preceding sentence and (B) the indemnifying party or parties shall bear such other expenses as it or they have authorized to be incurred by the indemnified party or parties. If, within a reasonable time after receipt of the Notice, no Notice of Defense has been given, the indemnifying party or parties shall be responsible for any legal or other expenses incurred by the indemnified party or parties in connection with the defense of the action, suit, investigation, inquiry or proceeding.

(d) If the indemnification provided for in this Section 7 is unavailable or insufficient to hold harmless an indemnified party under paragraph (a) or (b) of this Section 7, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in paragraph (a) or (b) of this Section 7 (i) in such proportion as is appropriate to reflect the relative benefits received by each indemnifying party from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of each indemnifying party in connection with the

statements or omissions that resulted in such losses, claims, damages or liabilities, or actions in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Securityholders on the one hand and the Underwriters on the other shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Stock received by the Company and the Selling Securityholders and the total underwriting discount received by the Underwriters, as set forth in the table on the cover page of the Prospectus, bear to the aggregate public offering price of the Stock. Relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by each indemnifying party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission.

The parties agree that it would not be just and equitable if contributions pursuant to this paragraph (d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to in the first sentence of this paragraph (d). The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities, or actions in respect thereof, referred to in the first sentence of this paragraph (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigation, preparing to defend or defending against any action or claim which is the subject of this paragraph (d). Notwithstanding the provisions of this paragraph (d), no Underwriter shall be required to contribute any amount in excess of the underwriting discount applicable to the Stock purchased by such Underwriter. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters'

obligations in this paragraph (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

Each party entitled to contribution agrees that upon the service of a summons or other initial legal process upon it in any action instituted against it in respect of which contribution may be sought, it will promptly give written notice of such service to the party or parties from whom contribution may be sought, but the omission so to notify such party or parties of any such service shall not relieve the party from whom contribution may be sought from any obligation it may have hereunder or otherwise (except as specifically provided in paragraph (c) of this Section 7).

(e) Neither the Company nor the Selling Securityholders will, without the prior written consent of each Underwriter, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not such Underwriter or any person who controls such Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act is a party to such claim, action, suit or proceeding) unless such settlement, compromise or consent includes an unconditional release of such Underwriter and each such controlling person from all liability arising out of such claim, action, suit or proceeding.

(f) The liability of each Selling Securityholder under this Agreement, including the indemnity, contribution and reimbursement agreements contained in the provisions of this

Section 7 and Section 11 hereof shall be limited to an amount equal to the gross proceeds from the Sale of the stock sold by such Selling Securityholder to the Underwriters, less the amount of the underwriting discount applicable to such Stock. The Company and the Selling Securityholders may agree, as among themselves and without limiting the rights of the Underwriters under this Agreement, as to the respective amounts of such liability for which they each shall be responsible.

8. TERMINATION. This Agreement may be terminated by you at any time prior to the Closing Date by giving written notice to the Company and the Selling Securityholders if after the date of this Agreement trading in the Common Stock shall have been suspended, or if there shall have occurred (i) the engagement in major hostilities or an escalation of major hostilities by the United States or the declaration of war or a national emergency by the United States on or after the date hereof, (ii) any outbreak of major hostilities or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, calamity, crisis or change in economic or political conditions in the financial markets of the United States would, in the Underwriters' reasonable judgment, make the offering or delivery of the Stock impracticable, (iii) suspension of trading in securities generally or a material adverse decline in value of securities generally on the New York Stock Exchange, the American Stock Exchange, or The Nasdaq Stock Market, or limitations on prices (other than limitations on hours or numbers of days of trading) for securities on either such exchange or system, (iv) the enactment, publication, decree or other promulgation of any federal or state statute, regulation, rule or order of, or commencement of any proceeding or investigation by, any court, legislative body, agency or other governmental authority which in the Underwriters' reasonable opinion materially and adversely affects or will materially or adversely affect the business or operations of the Company, (v) declaration of a banking moratorium by either federal or New York State authorities or (vi) the taking of any action by any federal, state or local government or agency in respect of its monetary or fiscal affairs which in the Underwriters' reasonable opinion has a material adverse effect on the securities markets in the United States. If this Agreement shall be terminated pursuant to this Section 8, there shall be no liability of the Company or the Selling Securityholders to the Underwriters and no liability of the Underwriters to the Company or the Selling Securityholders; PROVIDED, HOWEVER, that in the event of any such termination the Company and the Selling Securityholders agree to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company and the Selling Securityholders under this Agreement, including all costs and expenses referred to in paragraphs (i) and (j) of Section 6 hereof.

9. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the several Underwriters to purchase and pay for the Stock shall be subject to the performance by the Company and by the Selling Securityholders of all their respective obligations to be performed hereunder at or prior to the Closing Date or any later date on which Option Stock is to be purchased, as the case may be, and to the following further conditions:

(a) The Registration Statement shall have become effective; and no stop order suspending the effectiveness thereof shall have been issued and no proceedings therefor shall be pending or threatened by the Commission.

(b) The legality and sufficiency of the sale of the Stock hereunder and the validity and form of the certificates representing the Stock, all corporate proceedings and other legal matters incident to the foregoing, and the form of the Registration Statement and of the Prospectus (except as to the financial statements contained therein), shall have been approved at or prior to the Closing Date by Orrick, Herrington & Sutcliffe LLP, counsel for the Underwriters.

(c) You shall have received from Oppenheimer Wolff & Donnelly LLP, counsel for the Company and the Selling Securityholders, and from _____, patent counsel for the Company, opinions, addressed to the Underwriters and dated the Closing Date, covering the matters set forth in Annex A and Annex B hereto, respectively, and if Option Stock is purchased at any date after the Closing Date, additional opinions from each such counsel, addressed to the Underwriters and dated such later date, confirming that the statements expressed as of the Closing Date in such opinions remain valid as of such later date.

(d) You shall be satisfied that (i) as of the Effective Date, the statements made in the Registration Statement and the Prospectus were true and correct and neither the Registration Statement nor the Prospectus omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, respectively, and in light of the circumstances under which they were made in the case of the Prospectus, not misleading, (ii) since the Effective Date, no event has occurred which should have been set forth in a supplement or amendment to the Prospectus which has not been set forth in such a supplement or amendment, (iii) since the respective dates as of which information is given in the Registration Statement in the form in which it originally became effective and the Prospectus contained therein, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, and, since such dates, except in the ordinary course of business, neither the Company nor any of its subsidiaries has entered into any material transaction not referred to in the Registration Statement in the form in which it originally became effective and the Prospectus contained therein, (iv) neither the Company nor any of its subsidiaries has any material contingent obligations which are not disclosed in the Registration Statement and the Prospectus, (v) there are not any pending or known threatened legal proceedings to which the Company or any of its subsidiaries is a party or of which property of the Company or any of its subsidiaries is the subject which are material and which are not disclosed in the Registration Statement and the Prospectus, (vi) there are not any franchises, contracts, leases or other documents which are required to be filed as exhibits to the Registration Statement which have not been filed as required, (vii) the representations and warranties of the Company herein are true and correct in all material respects as of the Closing Date or any later date on which Option Stock is to be purchased, as the case may be, and (viii) there has not been any outbreak of major hostilities or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, calamity, crisis or change in economic or political conditions in the financial markets of the United States would, in the Underwriters' reasonable judgment, make the offering or delivery of the Stock impracticable or the suspension of trading in securities generally or a material adverse decline in value of securities generally on the New York Stock Exchange, the American Stock Exchange, or The Nasdaq Stock Market, or limitations on prices (other than limitations on hours or numbers of days of trading) for securities on either such exchange or system.

(e) You shall have received on the Closing Date and on any later date on which Option Stock is purchased a certificate, dated the Closing Date or such later date, as the case may be, and signed by the President and the Chief Financial Officer of the Company, stating that the respective signers of said certificate have carefully examined the Registration Statement in the form in which it originally became effective and the Prospectus contained therein and any supplements or amendments thereto, and that the statements included in clauses (i) through (vii) of paragraph (d) of this Section 9 are true and correct.

(f) You shall have received from KPMG Peat Marwick LLP a letter or letters, addressed to the Underwriters and dated the Closing Date and any later date on which Option Stock is purchased, confirming that they are independent certified public accountants with respect to the Company within the meaning of the Securities Act and the applicable published rules and regulations thereunder and based upon the procedures described in their letter delivered to you concurrently with the execution of this Agreement (herein called the Original Letter), but carried out to a date not more than three business days prior to the Closing Date or such later date on which Option Stock is purchased (i) confirming, to the extent true, that the statements and conclusions set forth in the Original Letter are accurate as of the Closing Date or such later date, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Original Letter which are necessary to reflect any changes in the facts described in the Original Letter since the date of the Original Letter or to reflect the availability of more recent financial statements, data or information. The letters shall not disclose any change, or any development involving a prospective change, in or affecting the business or properties of the Company or any of its subsidiaries which, in your sole judgment, makes it impractical or inadvisable to proceed with the public offering of the Stock or the purchase of the Option Stock as contemplated by the Prospectus.

(g) You shall have received from KPMG Peat Marwick LLP a letter stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of the Company's consolidated financial statements as of and at September 30, 1998 and for the nine-month period then ended, did not disclose any weakness in internal controls that they considered to be material weaknesses.

(h) You shall have been furnished evidence in usual written or telegraphic form from the appropriate authorities of the several jurisdictions, or other evidence satisfactory to you, of the qualification referred to in paragraph (f) of Section 6 hereof.

(i) Prior to the Closing Date, the Stock shall have been duly authorized for listing by the Nasdaq National Market upon official notice of issuance.

(j) On or prior to the Closing Date, you shall have received from all directors, officers, and beneficial holders of more than 1% of the outstanding Common Stock agreements, in a form reasonably satisfactory to Hambrecht & Quist LLC, stating that without the prior written consent of Hambrecht & Quist LLC on behalf of the Underwriters, such person or entity will not, for a period of 180 days following the commencement of the public offering of the Stock by the Underwriters, directly or indirectly, (i) sell, offer, contract to sell, make any short sale, pledge, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any shares of

Common Stock or any securities convertible into or exchangeable or exercisable for or any rights to purchase or acquire Common Stock or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences or ownership of Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise.

All the agreements, opinions, certificates and letters mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if Orrick, Herrington & Sutcliffe LLP, counsel for the

Underwriters, shall be satisfied that they comply in form and scope.

In case any of the conditions specified in this Section 9 shall not be fulfilled, this Agreement may be terminated by you by giving notice to the Company and to the Selling Securityholders. Any such termination shall be without liability of the Company or the Selling Securityholders to the Underwriters and without liability of the Underwriters to the Company or the Selling Securityholders; PROVIDED, HOWEVER, that (i) in the event of such termination, the Company and the Selling Securityholders agree to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company and the Selling Securityholders under this Agreement, including all costs and expenses referred to in paragraphs (i) and (j) of Section 6 hereof, and (ii) if this Agreement is terminated by you because of any refusal, inability or failure on the part of the Company or the Selling Securityholders to perform any agreement herein, to fulfill any of the conditions herein, or to comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally upon demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the transactions contemplated hereby.

10. CONDITIONS OF THE OBLIGATION OF THE COMPANY AND THE SELLING SECURITYHOLDERS. The obligation of the Company and the Selling Securityholders to deliver the Stock shall be subject to the conditions that (a) the Registration Statement shall have become effective and (b) no stop order suspending the effectiveness thereof shall be in effect and no proceedings therefor shall be pending or threatened by the Commission.

In case either of the conditions specified in this Section 10 shall not be fulfilled, this Agreement may be terminated by the Company and the Selling Securityholders by giving notice to you. Any such termination shall be without liability of the Company and the Selling Securityholders to the Underwriters and without liability of the Underwriters to the Company or the Selling Securityholders; PROVIDED, HOWEVER, that in the event of any such termination, the Company and the Selling Securityholders jointly and severally agree to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company and the Selling Securityholders under this Agreement, including all costs and expenses referred to in paragraphs (i) and (j) of Section 6 hereof.

11. REIMBURSEMENT OF CERTAIN EXPENSES. In addition to their other obligations under Section 7 of this Agreement (and subject, in the case of a Selling Securityholder, to the provisions of paragraph (f) of Section 7), the Company and the Selling Securityholders hereby jointly and severally agree to reimburse, on a quarterly basis, the Underwriters for all reasonable

legal and other expenses incurred in connection with investigating or defending any claim, action, investigation, inquiry or other proceeding arising out of or based upon any statement or omission, or any alleged statement or omission, described in paragraph (a) of Section 7 of this Agreement, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the obligations under this Section 11 and the possibility that such payments might later be held to be improper; PROVIDED, HOWEVER, that (i) to the extent any such payment is ultimately held to be improper, the persons receiving such payments shall promptly refund them and (ii) such persons shall provide to the Company, upon request, reasonable assurances of their ability to effect any refund, when and if due.

12. PERSONS ENTITLED TO BENEFIT OF AGREEMENT. This Agreement shall inure to the benefit of the Company, the Selling Securityholders and the several Underwriters and, with respect to the provisions of Section 7 hereof, the several parties (in addition to the Company, the Selling Securityholders and the several Underwriters) indemnified under the provisions of said Section 7, and their respective personal representatives, successors and assigns. Nothing in this Agreement is intended or shall be construed to give to any other person, firm or corporation any legal or equitable remedy or claim under or in respect of this Agreement or any provision herein contained. The term "successors and assigns" as herein used shall not include any purchaser, as such purchaser, of any of the Stock from any of the several Underwriters.

13. NOTICES. Except as otherwise provided herein, all communications hereunder shall be in writing or by telegraph and, if to the Underwriters, shall be mailed, telegraphed or delivered to Hambrecht & Quist LLC, One Bush Street, San Francisco, California 94104; and if to the Company, shall be mailed, telegraphed or delivered to it at its office, 6105 Trenton Lane North, Suite 100, Attention: ; and if to the Selling Securityholders, shall be mailed, telegraphed or delivered to the Selling Securityholders in care of at
. All notices given by telegraph shall be promptly confirmed by letter.

14. MISCELLANEOUS. The reimbursement, indemnification and contribution agreements contained in this Agreement and the representations, warranties and covenants in this Agreement shall remain in full force and effect regardless of (a) any termination of this Agreement, (b) any investigation made by or on behalf of any Underwriter or controlling person thereof, or by or on behalf of the Company or the Selling Securityholders or their respective directors or officers, and (c) delivery and payment for the Stock under this Agreement; PROVIDED, HOWEVER, that if this Agreement is terminated prior to the Closing Date, the provisions of paragraphs (l) and (m) of Section 6 hereof shall be of no further force or effect.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

Please sign and return to the Company and to the Selling Securityholders in care of the Company the enclosed duplicates of this letter, whereupon this letter will become a binding agreement among the Company, the Selling Securityholders and the several Underwriters in accordance with its terms.

Very truly yours,

SELECT COMFORT CORPORATION

By

[Name]
[Title]

SELLING SECURITYHOLDERS:

Apex Investment Fund, L.P. and
The Productivity Fund II, L.P.
General Electric Capital Corporation
Norwest Venture Capital
Cherry Tree Ventures IV Limited Partnership
Mark L. de Naray
Charles E. Dorsey
Alex. Brown & Sons Employees
Venture Fund LP
Theodore H. Ashford
Robert D. Auritt
Bayview Investors, Ltd.
Anne Dorsey
Richard M. Downs
James D. Gaboury
Doug Hickman
Brent T. Hutton
Karen Jones
Terral Jordon
KCB BV, L.P.
Douglas Keefer
Erwin A. Kelen
Gregory T. Kliner

Richard Knase
Marquette Venture Partners II, L.P.
MVP II Affiliates Fund, L.P.
Doug Poole
J.P. Poole

SELLING SECURITYHOLDERS (CONT.):

Suzanne Puerzer
John A. Rollwagen
John Sculley
Dewey K. Shay
Robert A. Walker
Jo Ann O. Walker
Kenneth H. Walker
Kenneth H. Walker, IRA

By

[Attorney-in-Fact]

The foregoing Agreement is hereby confirmed
and accepted as of the date first above written.

HAMBRECHT & QUIST LLC
BANCBOSTON ROBERTSON STEPHENS INC.
PIPER JAFFRAY, INC.
By Hambrecht & Quist LLC

By

Managing Director

Acting on behalf of the several Underwriters,
including themselves, named in Schedule I hereto.

SCHEDULE I

UNDERWRITERS

NUMBER OF UNDERWRITERS	SHARES TO BE PURCHASED
Hambrecht & Quist LLC	
BancBoston Robertson Stephens Inc.	
Piper Jaffray, Inc.	

Total.	2,800,000

SCHEDULE II

SELLING SECURITYHOLDERS

NAME OF SELLING SECURITYHOLDERS	NUMBER OF SHARES OF UNDERWRITTEN STOCK TO BE SOLD	NUMBER OF SHARES OF OPTION STOCK TO BE SOLD
Apex Investment Fund, L.P. and The Productivity Fund II, L.P.		
General Electric Capital Corporation..		
Norwest Venture Capital.....		
Cherry Tree Ventures IV Limited..... Partnership.....		
Mark L. de Naray.....		
Charles E. Dorsey.....		
Alex. Brown & Sons Employees..... Venture Fund LP.....		
Theodore H. Ashford.....		
Robert D. Auritt.....		
Bayview Investors, Ltd.		
Anne Dorsey.....		
Richard M. Downs.....		
James D. Gaboury.....		
Doug Hickman.....		
Brent T. Hutton.....		
Karen Jones.....		
Terral Jordon.....		
KCB BV, L.P.		
Douglas Keefer.....		
Erwin A. Kelen.....		
Gregory T. Kliner.....		
Richard Knase.....		
Marquette Venture Partners II, L.P. ..		
MVP II Affiliates Fund, L.P.		
Doug Poole.....		
J.P. Poole.....		
Suzanne Puerzer.....		
John A. Rollwagen.....		
John Sculley.....		
Dewey K. Shay.....		
Robert A. Walker.....		
Jo Ann O. Walker.....		
Kenneth H. Walker.....		
Kenneth H. Walker, IRA.....		
Total	1,200,000	600,000

ANNEX A

MATTERS TO BE COVERED IN THE OPINION OF OPPENHEIMER WOLFF DONNELLY LLP
COUNSEL FOR THE COMPANY
AND THE SELLING SECURITYHOLDERS

(i) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, is duly qualified as a foreign corporation and in good standing in each state of the United States of America in which its ownership or leasing of property requires such qualification (except where the failure to be so qualified would not have a material adverse effect on the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole), and has full corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement; all the issued and outstanding capital stock of each of the subsidiaries of the Company has been duly authorized and validly issued and is fully paid and nonassessable, and is owned by the Company free and clear of all liens, encumbrances and security interests, and to the best of such counsel's knowledge, no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into shares of capital stock or ownership interests in such subsidiaries are outstanding;

(ii) the authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the heading "Capitalization" (except for issuances subsequent to the date thereof, if any, pursuant to the exercise of options and warrants referred to in the Prospectus and except that the conversion of all the Company's outstanding shares of Series A, B, C, D and E Preferred Stock, assumed in the Prospectus to have previously occurred, will not occur until the Closing Date); proper corporate proceedings have been taken validly to authorize such authorized capital stock; all of the outstanding shares of such capital stock (including the Underwritten Stock and the shares of Option Stock issued, if any) have been duly and validly issued and are fully paid and nonassessable; any Option Stock purchased after the Closing Date, when issued and delivered to and paid for by the Underwriters as provided in the Underwriting Agreement, will have been duly and validly issued and be fully paid and nonassessable; and no preemptive rights of, or rights of refusal in favor of, shareholders exist with respect to the Stock, or the issue and sale thereof, pursuant to the Articles of Incorporation or Bylaws of the Company and, to the knowledge of such counsel, there are no contractual preemptive rights that have not been waived, rights of first refusal or rights of co-sale which exist with respect to the Stock being sold by the Selling Securityholders or the issue and sale of the Stock;

(iii) the Registration Statement has become effective under the Securities Act and, to the best of such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement or suspending or preventing the use of the Prospectus is in effect and no proceedings for that purpose have been instituted or are pending or contemplated by the Commission;

(iv) the Registration Statement and the Prospectus (except as to the financial statements and schedules and other financial and statistical data contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Securities Act and with the rules and regulations of the Commission thereunder;

(v) the information required to be set forth in the Registration Statement in answer to Items 9, 10 (insofar as it relates to such counsel) and 11(c) of Form S-1 is to the best of such counsel's knowledge accurately and adequately set forth therein in all material respects or no response is required with respect to such Items, and the description of the Company's stock option plans and the options granted and which may be granted thereunder and the options granted otherwise than under such plans set forth in the Prospectus accurately and fairly presents in all material respects, the information required to be shown with respect to said plans and options to the extent required by the Securities Act and the rules and regulations of the Commission thereunder;

(vi) such counsel do not know of any material franchises, contracts, leases, documents or legal proceedings, pending or threatened, which in the opinion of such counsel are of a character required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement, which are not described and filed as required;

(vii) the Underwriting Agreement has been duly authorized, executed and delivered by the Company;

(viii) the Underwriting Agreement has been duly executed and delivered by or on behalf of the Selling Securityholders and the Custody Agreement between the Selling Securityholders and Norwest Bank Minnesota, N.A., as Custodian, and the Power of Attorney referred to in such Custody Agreement have been duly executed and delivered by the several Selling Securityholders;

(ix) the issue and sale by the Company of the shares of Stock sold by the Company as contemplated by the Underwriting Agreement will not conflict with, or result in a breach of, the Articles of Incorporation or Bylaws of the Company or any of its subsidiaries or result in the breach of any agreement or instrument filed as an exhibit to the Registration Statement and to which the Company or any of its subsidiaries is a party or any applicable law or regulation, or so far as is known to such counsel, any order, writ, injunction or decree, of any jurisdiction, court or governmental instrumentality;

(x) all holders of securities of the Company having rights to the registration of shares of Common Stock, or other securities, because of the filing of the Registration Statement by the Company, have waived such rights or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement;

(xi) good and marketable title to the shares of Stock sold by the Selling Securityholders under the Underwriting Agreement, free and clear of all liens,

encumbrances, equities, security interests and claims, has been transferred to the Underwriters who have severally purchased such shares of Stock under the Underwriting Agreement, assuming for the purpose of this opinion that the Underwriters purchased the same in good faith without notice of any adverse claims and assuming that each Underwriter is otherwise a bona fide purchaser for purposes of the Uniform Commercial Code; and

(xii) no consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated in the Underwriting Agreement, except such as have been obtained under the Securities Act and such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Stock by the Underwriters.

Counsel rendering the foregoing opinion may rely as to questions of law not involving the laws of the United States or of the State of Minnesota, upon opinions of local counsel satisfactory in form and scope to counsel for the Underwriters. Copies of any opinions so relied upon shall be delivered to the Representatives and to counsel for the Underwriters and the foregoing opinion shall also state that counsel knows of no reason the Underwriters are not entitled to rely upon the opinions of such local counsel.

In addition to the matters set forth above, counsel rendering the foregoing opinion shall also include a statement to the effect that nothing has come to the attention of such counsel that leads it to believe that the Registration Statement (except as to the financial statements and schedules and other financial and statistical data, and except with respect to the discussions of intellectual property matters, contained or incorporated by reference therein, as to which such counsel need not express any opinion or belief) at the Effective Date contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, that the Prospectus (except as to the

financial statements and schedules and other financial and statistical data and except with respect to the discussions of intellectual property matters, contained or incorporated by reference therein, as to which such counsel need not express any opinion or belief) as of its date or at the Closing Date (or any later date on which Option Stock is purchased), contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

ANNEX B

MATTERS TO BE COVERED IN THE OPINION OF
PATENT COUNSEL FOR THE COMPANY

Such counsel are familiar with the technology used by the Company in its business and the manner of its use thereof and have read the Registration Statement and the Prospectus, including particularly the portions of the Registration Statement and the Prospectus referring to patents, trade secrets, trademarks, service marks or other proprietary information or materials and:

(i) such counsel have no reason to believe that the Registration Statement or the Prospectus (A) contains any untrue statement of a material fact with respect to patents, trade secrets, trademarks, service marks or other proprietary information or materials owned or used by the Company, or the manner of its use thereof, or any allegation on the part of any person that the Company is infringing any patent rights, trade secrets, trademarks, service marks or other proprietary information or materials of any such person or (B) omits to state any material fact relating to patents, trade secrets, trademarks, service marks or other proprietary information or materials owned or used by the Company, or the manner of its use thereof, or any allegation of which such counsel have knowledge, that is required to be stated in the Registration Statement or the Prospectus or is necessary to make the statements therein not misleading;

(ii) to the best of such counsel's knowledge there are no legal or governmental proceedings pending relating to patent rights, trade secrets, trademarks, service marks or other proprietary information or materials of the Company, and to the best of such counsel's knowledge no such proceedings are threatened or contemplated by governmental authorities or others;

(iii) such counsel do not know of any contracts or other documents, relating to governmental regulation affecting the Company or the Company's patents, trade secrets, trademarks, service marks or other proprietary information or materials of a character required to be filed as an exhibit to the Registration Statement or required to be described in the Registration Statement or the Prospectus that are not filed or described as required;

(iv) to the best of such counsel's knowledge, the Company is not infringing or otherwise violating any patents, trade secrets, trademarks, service marks or other proprietary information or materials of others, and to the best of such counsel's knowledge there are no infringements by others of any of the Company's patents, trade secrets, trademarks, service marks or other proprietary information or materials which in the judgment of such counsel could affect materially the use thereof by the Company; and

(v) to the best of such counsel's knowledge, the Company owns or possesses sufficient licenses or other rights to use all patents, trade secrets, trademarks, service marks or other proprietary information or materials necessary to conduct the business now being or proposed to be conducted by the Company as described in the Prospectus.

THIRD RESTATED
ARTICLES OF INCORPORATION
OF
SELECT COMFORT CORPORATION

These Third Restated Articles of Incorporation supersede the Second Restated Articles of Incorporation dated August 31, 1998 and all amendments thereto.

ARTICLE I

The name of the Corporation is Select Comfort Corporation.

ARTICLE II

The registered office of the Corporation in Minnesota is 6105 Trenton Lane North, Suite 100, Minneapolis, MN 55442-3240.

ARTICLE III

The Corporation, through its Board of Directors, is authorized to issue up to one-hundred million (100,000,000) shares of capital stock, ninety-five million (95,000,000) of which are designated as Common Stock, five million (5,000,000) of which are designated as the "Undesignated Preferred Stock," and all of which shall have a par value of $0.01 per share.

The Undesignated Preferred Stock may be issued from time to time in one or more series. For each series, the Board of Directors must fix, prior to the issuance of any shares thereof, pursuant to the authority hereby expressly vested in it, a distinctive designation or title, the number of shares in each series, the voting powers (full, limited or no voting powers), the preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof.

ARTICLE IV

The purposes of the Corporation are general business purposes and the Corporation shall possess all powers necessary to conduct any business in which it is authorized to engage, including, but not limited to, all those powers expressly conferred upon business corporations by Chapter 302A of the Minnesota Statutes, as amended, together with those powers implied therefrom.

ARTICLE V

The Corporation shall have perpetual duration.

ARTICLE VI

The affirmative vote of the holders of a majority of the voting power of the shares of capital stock represented and entitled to vote at a duly held meeting is required for an action of the shareholders, including any amendment to these Articles of Incorporation, except where Chapter

302A of the Minnesota Statutes, as amended, or these Articles of Incorporation, as amended, requires an affirmative vote of a larger majority.

ARTICLE VII

Shares of capital stock of the Corporation acquired by the Corporation shall become authorized but unissued shares and may be reissued, from time to time, at the discretion of the Corporation.

ARTICLE VIII

Except as otherwise provided in these Articles of Incorporation, as amended,

(A) The Board of Directors may from time to time, by vote of a majority of its members present at a duly held meeting, adopt, amend or repeal all or any of the

Bylaws of the Corporation as permitted by Chapter 302A of the Minnesota Statutes, as amended, subject to the power of the shareholders to adopt, amend or repeal such Bylaws.

(B) The Board of Directors is authorized to accept and reject subscriptions for and to dispose of shares of authorized stock of the Corporation, including the granting of stock options, warrants and other rights to purchase stock, without action by the shareholders and upon such terms and conditions as may be deemed advisable by the Board of Directors in the exercise of its discretion, except as otherwise limited by Chapter 302A of the Minnesota Statutes, as amended.

(C) The Board of Directors is authorized to issue, sell or otherwise dispose of bonds, debentures, certificates of indebtedness and other securities, including those convertible into stock, without action by the shareholders and for such consideration and upon such terms and conditions as may be deemed advisable by the Board of Directors in the exercise of its discretion, except as otherwise limited by Chapter 302A of the Minnesota Statutes, as amended.

ARTICLE IX

Any action required or permitted to be taken at a meeting of the Board of Directors may be taken by written consent signed by all the directors; provided that, if the action is one which does not require shareholder approval, such action may be taken by written consent signed by the number of directors that would be required to take the same action at a meeting at which all directors were present.

ARTICLE X

The shareholders of the Corporation have no right to cumulate their votes in the election of directors.

ARTICLE XI

The shareholders of the Corporation have no preemptive rights in any future issuance of stock by the Corporation.

ARTICLE XII

Each director, officer, employee or agent, past and present, of the Corporation, and each person who serves or may have served at the request of the Corporation as a director, officer, employee or agent of another corporation or employee benefit plan, and their respective heirs, administrators and executors, shall be indemnified by the Corporation in accordance with, and to the fullest extent permissible under, the provisions of Chapter 302A of the Minnesota Statutes, as amended.

ARTICLE XIII

A director of the Corporation, including a person deemed to be a director under applicable law, shall not be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except to the extent provided by applicable law for (i) liability based on a breach of the duty of loyalty to the Corporation or the shareholders; (ii) liability for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) liability based on the payment of an improper dividend or an improper acquisition of the Corporation's shares under Section 559 of the Minnesota Business Corporation Act (Minnesota Statutes, Chap. 302A) or on violations of state securities laws under Section 80A.23 of Minnesota Statutes; or (iv) liability for any transaction from which the director derived an improper personal benefit. If Chapter 302A, the Minnesota Business Corporation Act, hereafter is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal liability provided herein, shall be eliminated or limited to the fullest extent permitted by any such amendment. Any repeal or modification of this Article XIII by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE XIV

The number of directors which shall constitute the entire Board of Directors shall not be less than one (1) nor more than nine (9), which number shall be determined from time to time by the Board of Directors. The Directors shall be divided into three (3) classes, as nearly equal in number as possible. The term of office of the first class shall expire at the 1999 annual meeting of the shareholders of the Corporation; the term of office of the second class shall expire at the 2000 annual meeting of the shareholders of the Corporation; and the term of office of the third class shall expire at the 2001 annual meeting of the shareholders of the Corporation. At each annual meeting of the shareholders after such classification, the number of directors equal to the number of the class whose term expires on the day of such meeting shall be elected for a term of three (3) years. Directors shall hold office until expiration of the terms for which they were elected and qualified; provided, however, that a director may be removed from office as a director at any time by the shareholders, but only for cause, and only by the affirmative vote of a majority of the outstanding voting power entitled to elect such director. If the office of any director becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, increase in the number of directors or otherwise, a majority of the remaining directors, although less than a quorum, at a meeting called for that purpose, may choose a successor, who, unless removed for cause as set forth above, shall hold office until the expiration

of the term of the class for which appointed or until a successor shall be elected and qualified. This Article XIV may not be altered, amended or repealed, in whole or in part, unless authorized by the affirmative vote of the holders of not less than two-thirds of the outstanding voting power entitled to vote.

ARTICLE XV

The affirmative vote of the holders of not less than two-thirds of the outstanding voting power of the corporation entitled to vote for approval shall be required if (a) this Corporation merges or consolidates with any other corporation, or if (b) this Corporation sells or exchanges all or a substantial part of its assets to or with any other corporation, or if (c) this Corporation issues or delivers any stock or other securities of its issue in exchange or payment for any properties or assets of any other corporation, or securities issued by any other corporation, or in a merger of any subsidiary of this Corporation (80% or more of the common stock of which is held by this Corporation) with or into any other corporation; provided, however, that the foregoing shall not apply to any plan of merger or consolidation, or sale or exchange of assets, or issuance or delivery of stock or other securities which was approved (or adopted) and recommended without condition by the affirmative vote of not less than two-thirds of the directors, nor shall it apply to any such transaction solely between this Corporation and another corporation 50% or more of the voting stock of which is owned, directly or indirectly, by this Corporation. The Board of Directors shall be permitted to condition its approval (or adoption) of any plan of merger or exchange of assets, or issuance or delivery of stock or securities upon the approval of holders of two-thirds of the outstanding stock of this Corporation entitled to vote on such plan of merger or consolidation, or sale or exchange of assets, or issuance or delivery of stock or securities. This Article XV may not be altered, amended or repealed, in whole or in part, unless authorized by the affirmative vote of the holders of not less than two-thirds of the outstanding voting power entitled to vote.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this ___ day of _____, 1998.

SELECT COMFORT CORPORATION

By: ---

Its: ---

SECOND
RESTATED BYLAWS
OF
SELECT COMFORT CORPORATION

ARTICLE I
Offices

SECTION 1. REGISTERED OFFICE. The registered office of the Corporation required by Chapter 302A of the Minnesota Statutes to be maintained in the State of Minnesota is as designated in the Articles of Incorporation. The Board of Directors of the Corporation may, from time to time, change the location of the registered office. On or before the day that such change is to become effective, a certificate of such change and of the new address of the new registered office shall be filed with the Secretary of State of the State of Minnesota.

SECTION 2. OTHER OFFICES. The Corporation may establish and maintain such other offices, within or without the State of Minnesota, as are from time to time authorized by the Board of Directors.

ARTICLE II
Meetings of Shareholders

SECTION 1. PLACE OF MEETING. All meetings of the shareholders shall be held at the registered office of the Corporation in the State of Minnesota or at such place within or without the state as may be fixed from time to time by the Board of Directors, provided that a meeting called by or at the demand of a shareholder shall be held in the county where the principal executive office of the Corporation is located.

SECTION 2. DATE OF MEETING. A regular meeting of shareholders may be held for the purpose of electing directors or for the transaction of any other business as may come before the meeting. It shall be the duty of the President or Treasurer, upon demand of any shareholder holding three percent (3%) or more of the voting power of all shares entitled to vote to call such meeting if a regular meeting of shareholders has not been held during the immediately preceding fifteen (15) months. If said officers fail to call and hold such meeting within ninety (90) days after receipt of the demand, the shareholder making the demand shall have the right and power to call such meeting.

SECTION 3. NOTICE OF REGULAR MEETINGS. Written notice of the time and place of each regular shareholder meeting shall be mailed, postage prepaid, at least ten (10) business days but not more than sixty (60) days before such meeting, to each shareholder entitled to vote thereat at his address as the same appears upon the books of the Corporation.

SECTION 4. SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Articles of Incorporation, may be called by the President or Treasurer and shall be called by the President or Treasurer at the request in writing of two or more members of the Board of Directors, or at the request in writing of shareholders owning ten percent (10%) or more of the voting power of all shares entitled to vote. Such request, which shall be by registered mail or delivered in person to the President or Treasurer, shall state the purpose or purposes of the proposed meeting.

SECTION 5. NOTICE OF SPECIAL MEETINGS. Written notice of the time, place and purpose or purposes of a special meeting shall be mailed, postage prepaid, at least five (5) business but not more than sixty (60) days before such meeting, to each shareholder entitled to vote at such meeting at his address as the same appears upon the books of the Corporation.

SECTION 6. BUSINESS TO BE TRANSACTED. (A) The proposal of business, except nominations of persons for election to the Board of Directors of the

Corporation, to be considered by the shareholders at a regular or annual meeting of shareholders may be made by any shareholder of the Corporation who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 6(A) and who was a shareholder of record at the time such notice is delivered to the Secretary of the Corporation. For business, except nominations of persons for election to the Board of Directors of the Corporation, to be properly brought before a regular or annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive office of the Corporation not less than one hundred twenty (120) days prior to the first anniversary of the date that the Corporation first released or mailed its proxy statement to shareholders in connection with the preceding year's regular or annual meeting; provided, however, that in the event that the date of the regular or annual meeting is advanced by more than thirty (30) days or delayed by more than sixty (60) days from the anniversary of the preceding year's regular or annual meeting date, notice by the shareholder to be timely must be so delivered not later than the close of business on the later of the one hundred twentieth (120th) day prior to such regular or annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. Such shareholder's notice shall set forth (a) as to any business, except for nominations of persons for election to the Board of Directors of the Corporation, that the shareholder proposes to bring before the meeting, a brief description of the business desires to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made and (b) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner.

(B) Only such business shall be conducted as a special meeting of shareholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting pursuant to Section 5 of these Bylaws.

(C) Only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 6. Except as otherwise provided by law, the Articles of Incorporation or these Bylaws, the chairman of the meeting shall have the power and duty to determine whether any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 6, and, if any proposed business is not in compliance with this Section 6, to declare that such defective proposal shall be disregarded.

SECTION 7. WAIVER OF NOTICE. A shareholder may waive notice of a meeting of shareholders. A waiver of notice by a shareholder entitled to notice is effective whether given before, at, or after the meeting, and whether given in writing, orally, or by attendance. Attendance by a shareholder at a meeting is a waiver of notice of that meeting, except where the shareholder objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened, or objects before a vote on an item of business because the item may not lawfully be considered at that meeting and does not participate in the consideration of the item at that meeting.

SECTION 8. QUORUM AND ADJOURNMENT. The holders of a majority of the voting power of the shares entitled to vote at a meeting shall constitute a quorum at all meetings of the shareholders for the transaction of business, except as otherwise provided by statute or by the Articles of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the shareholders, the holders of a majority of the voting power of the shares entitled to vote thereat, and present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, even though the withdrawal of a number of shareholders originally present leaves less than the proportion or number otherwise required

for a quorum.

SECTION 9. VOTING RIGHTS. A shareholder may cast his vote in person or by proxy. When a quorum is present at the time a meeting is convened, the vote of the holders of a majority of the shares entitled to vote on any question present in person or by proxy shall decide such question unless the question is one upon which, by express provision of the applicable statute or the Articles of Incorporation, a different vote is required, in which case such express provision shall govern and control the decision of such question.

SECTION 10. MANNER OF VOTING. Each shareholder shall at every meeting of the shareholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such shareholder; provided, however, that (i) no proxy shall be valid after eleven (11) months from its date unless the proxy expressly provides for a longer period, and (ii) except where the transfer books of the Corporation have been closed or a date has been fixed as a record date for the determination of its shareholders entitled to vote, no share of stock that has been transferred on the books of the Corporation within twenty (20) days next preceding any election of directors shall be voted at such election for directors.

SECTION 11. RECORD DATE. The Board of Directors may fix a date, not exceeding sixty (60) days preceding the date of any meeting of shareholders, as a record date for the determination of the shareholders entitled to notice of and to vote at such meeting, and in such case only shareholders of record on the date so fixed, or their legal representatives, shall be entitled to notice of and to vote at such meeting, notwithstanding any transfer of any shares on the books of the Corporation after any record date so fixed. The Board of Directors may close the books of the Corporation against transfers of shares during the whole or any part of such period.

SECTION 12. ORGANIZATION OF MEETINGS. The President shall preside at all meetings of the shareholders, and in his or her absence the Treasurer shall act as Chairman. The Secretary shall act as secretary of all meetings of the shareholders, or in his or her absence any person appointed by the Chairman shall act as secretary.

SECTION 13. ACTION WITHOUT A MEETING. Any action required or permitted to be taken at a shareholders' meeting may be taken without a meeting if authorized by a writing or writings signed by all of the holders of shares who would be entitled to vote on that action. Such action shall be effective at the time the last signature is placed on such writing or writings, unless a different effective time is provided in the written action. If any action so taken requires a certificate to be filed in the office of the Secretary of State, the officer signing such certificate shall state therein that the action was effected in the manner aforesaid.

SECTION 14. SHAREHOLDER NOMINATIONS OF DIRECTORS. Any shareholder that intends to make a nomination of one or more persons for election to the Board of Directors of the Corporation shall have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive office of the Corporation not less than one hundred twenty (120) days prior to the first anniversary of the date that the Corporation first released or mailed its proxy statement to shareholders in connection with the preceding year's regular or annual meeting; provided, however, that in the event that the date of the regular or annual meeting is advanced by more than thirty (30) days or delayed by more than sixty (60) days from the anniversary of the preceding year's regular or annual meeting date, notice by the shareholder to be timely must be so delivered not later than the close of business on the later of the one hundred twentieth (120th) day prior to such regular or annual

meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. Such shareholder's notice shall set forth (a) as to each nominee whom the shareholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and

residence address of the nominee, (ii) the principal occupation or employment of the nominee, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by the nominee, and (iv) any other information concerning the nominee that would be required under the rules of the Securities and Exchange Commission in a proxy statement soliciting proxies of the election of such nominee; and (b) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made, (i) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner. Such notice shall include a signed consent to serve as a director of the Corporation, if elected, of each such nominee. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

ARTICLE III
Board of Directors

SECTION 1. GENERAL POWERS. The business and affairs of the Corporation shall be managed by or under its Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these Bylaws required to be exercised or done by the shareholders.

SECTION 2. NUMBER AND TERM OF OFFICE. The number of directors which shall constitute the entire Board of Directors shall not be less than one (1) nor more than nine (9), which number shall be determined from time to time by the Board of Directors. The Directors shall be divided into three (3) classes, as nearly equal in number as possible. The term of office of the first class shall expire at the 1999 annual meeting of the shareholders of the Corporation; the term of office of the second class shall expire at the 2000 annual meeting of the shareholders of the Corporation; and the term of office of the third class shall expire at the 2001 annual meeting of the shareholders of the Corporation. At each annual meeting of the shareholders after such classification, the number of directors equal to the number of the class whose term expires on the day of such meeting shall be elected for a term of three (3) years. Directors shall hold office until expiration of the terms for which they were elected and qualified.

SECTION 3. RESIGNATION AND REMOVAL. Any director may resign at any time by giving written notice to the Corporation. Such resignation shall take effect on the date of the receipt of such notice, or at any later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Any director may be removed from office as a director at any time by the

shareholders, but only for cause, and only by the affirmative vote of a majority of the outstanding voting power entitled to elect such director.

SECTION 4. VACANCIES. If the office of any director becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, increase in the number of directors or otherwise, a majority of the remaining directors, although less than a quorum, at a meeting called for that purpose, may choose a successor, who, unless removed for cause as set forth in Section 3 above, shall hold office until the expiration of the term of the class for which appointed or until a successor shall be elected and qualified.

SECTION 5. MEETINGS OF DIRECTORS. The Board of Directors of the Corporation may hold meetings, from time to time, either within or without the State of Minnesota, at such place as a majority of the members of the Board of Directors may from time to time appoint. If the Board of Directors fails to select a place for the meeting, the meeting shall be held at the principal executive office of the Corporation.

SECTION 6. CALLING MEETINGS. Meetings of the Board of Directors may be called by (i) the President on five (5) business days' notice or (ii) any director on ten (10) business days' notice, to each director, either personally, by telephone or by mail or telegram. Every such notice shall state the date, time and place of the meeting. Notice of a meeting called by a person other than the President shall state the purpose of the meeting.

SECTION 7. PARTICIPATION BY CONFERENCE TELEPHONE. Directors of the Corporation may participate in a meeting of the Board of Directors by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by that means shall constitute presence in person at the meeting.

SECTION 8. WAIVER OF NOTICE. A director may waive notice of a meeting of the Board of Directors. A waiver of notice by a director entitled to notice is effective whether given before, at, or after the meeting, and whether given in writing, orally, or by attendance. Attendance by a director at a meeting is a waiver of notice of that meeting, except where the director objects at the beginning of the meeting to the transaction of business because the meeting was not lawfully called or convened and does not participate thereafter in the meeting.

SECTION 9. ABSENT DIRECTORS. A director may give advance written consent or opposition to a proposal to be acted on at a meeting of the Board of Directors by actual delivery prior to the meeting of such advance written consent or opposition to the President or Treasurer or a director who is present at the meeting. If the director is not present at the meeting, advance written consent or opposition to a proposal shall not constitute presence for purposes of determining the existence of a quorum, but consent or opposition shall be counted as a vote in favor of or against the proposal and shall be entered in the minutes or other record of action at the meeting, if the proposal acted on at the meeting is substantially the same or has substantially the same effect as the proposal to which the director has consented or objected.

SECTION 10. QUORUM. At all meetings of the Board of Directors a majority of the directors shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by applicable statute or by the Articles of Incorporation. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present. If a quorum is present at the call of a meeting, the directors may continue to transact business until adjournment notwithstanding the withdrawal of enough directors to leave less than a quorum.

SECTION 11. ORGANIZATION OF MEETINGS. The President shall preside at all meetings of the Board of Directors, and in his or her absence the Treasurer shall act as Chairman. The Secretary shall act as secretary of all meetings of the Board of Directors, and in his or her absence any person appointed by the Chairman shall act as secretary.

SECTION 12. ACTION WITHOUT MEETING. Unless otherwise restricted by the Articles of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if a written consent thereto is signed by all members of the Board of Directors and such written consent is filed with the minutes of proceedings of the Board of Directors. If the proposed action need not be approved by the shareholders and the Articles of Incorporation so provide, action may be taken by written consent signed by the number of directors that would be required to take the same action at a meeting of the Board of Directors at which all directors were present. Such action shall be effective on the date on which the last signature is placed on such writing or writings, or such other effective date as is set forth therein.

SECTION 13. COMPENSATION OF DIRECTORS. By resolution of the Board of Directors, each director may be paid his or her expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a stated amount as a director or a fixed sum for attendance at each meeting of the Board of Directors, or both. No such payment shall preclude a director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV
Officers

SECTION 1. NUMBER. The officers of the Corporation shall be chosen by the Board of Directors and shall include a President, a Secretary, and a Treasurer. The Board of Directors may also choose one or more Vice Presidents, and one or

more Assistant Secretaries and Assistant Treasurers. Any number of offices or functions of those offices may be held or exercised by the same person.

SECTION 2. ELECTION. The Board of Directors at its first meeting after each regular meeting of shareholders shall choose a President, a Secretary and a Treasurer.

SECTION 3. OTHER OFFICERS AND AGENTS. The Board of Directors may appoint such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

SECTION 4. SALARIES. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

SECTION 5. TERM OF OFFICE. The officers of the Corporation shall hold office until their successors are chosen and qualify. Any officer elected or appointed by the Board of Directors may be removed with or without cause at any time by the affirmative vote of a majority of the Board of Directors. Any officer may resign at any time by giving written notice to the President or the Secretary of the Corporation. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors.

SECTION 6. THE PRESIDENT. POWERS AND DUTIES. The President shall be the chief executive officer of the Corporation, shall preside at all meetings of the Board of Directors and the shareholders, shall have general active management of the business of the Corporation, shall see that all orders and resolutions of the Board of Directors are carried into effect, and shall perform such other duties prescribed by the Board of Directors. He or she shall execute bonds, mortgages, and other contracts of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation, and shall maintain records of and, whenever necessary, certify all proceedings of the Board of Directors and the shareholders. Except as otherwise prescribed by these Bylaws or the Board of Directors, he or she shall prescribe duties of other officers.

SECTION 7. THE VICE PRESIDENT. POWERS AND DUTIES. The Vice President, if any, or if there shall be more than one, the Vice Presidents in the order determined by the Board of Directors, shall, in the absence or disability of the President, perform the duties and exercise the powers of the President and shall perform such other duties and have such other powers as the Board of Directors or the President may from time to time prescribe.

SECTION 8. THE SECRETARY. POWERS AND DUTIES. The Secretary shall attend all meetings of the Board of Directors and all meetings of the shareholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose. He or she shall give, or cause to be given, notice of all meetings of the shareholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision he or she shall be.

SECTION 9. ASSISTANT SECRETARY. The Assistant Secretary or, if there be more than one, the Assistant Secretaries, in the order determined by the Board of Directors, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors or the President may from time to time prescribe.

SECTION 10. THE TREASURER. POWERS AND DUTIES. The Treasurer shall be the chief financial officer, shall have custody of the Corporation's funds and securities, shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation, shall deposit all monies and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors, and shall perform such other duties prescribed by the Board of Directors or by the President.

SECTION 11. TREASURER'S ACCOUNTING. He or she shall disburse such funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his or her transactions as Treasurer and of the financial condition of the Corporation.

SECTION 12. TREASURER'S BOND. If required by the Board of Directors, he or she shall give the Corporation a bond (which shall be renewed every six (6) years) in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

SECTION 13. ASSISTANT TREASURER. The Assistant Treasurer or, if there shall be more than one, the Assistant Treasurers, in the order determined by the Board of Directors, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors or the President may from time to time prescribe.

ARTICLE V
Certificates of Stock

SECTION 1. CERTIFICATES OF STOCK. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by the President and the Secretary or an Assistant Secretary of the Corporation, if there be one, certifying the number of shares owned by him or her in the Corporation. The certificates of stock of each class shall be numbered in the order of their issue.

SECTION 2. FACSIMILE SIGNATURES. Where a certificate is signed (1) by a transfer agent or an assistant transfer agent, or (2) by a transfer clerk acting on behalf of the Corporation and a registrar, the signature of any such President, Secretary or Assistant Secretary may

be facsimile. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on any such certificate or certificates shall cease to be such officer or officers of the Corporation before such certificate or certificates have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the Corporation.

SECTION 3. LOST OR DESTROYED CERTIFICATES. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his or her legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

SECTION 4. TRANSFERS OF STOCK. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

SECTION 5. REGISTERED SHAREHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner

of shares to receive dividends, and to vote as such owner, and shall be entitled to hold liable for calls and assessments a person so registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by applicable statute.

ARTICLE VI
General Provisions

SECTION 1. DIVIDENDS. Subject to the provisions of the applicable statute and the Articles of Incorporation, dividends upon the capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock.

SECTION 2. RESERVES. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to

meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purposes as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

SECTION 3. CHECKS. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

SECTION 4. FISCAL YEAR. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

SECTION 5. SEAL. The Corporation shall not have a corporate seal.

ARTICLE VII
Amendments

SECTION 1. AMENDMENTS. The power to make, alter, amend or rescind these Bylaws is vested in the Board of Directors, subject to the power of the shareholders to adopt, amend or repeal these Bylaws, as permitted by applicable statute.

ARTICLE VIII
Indemnification

SECTION 1. RIGHT TO INDEMNIFICATION. Each person who was or is made a party or is threatened to be made a party to or is involved in or called as a witness in any Proceeding because he or she is an Indemnified Person, shall be indemnified and held harmless by the corporation to the fullest extent permitted under the Minnesota Statutes (the "Statutes"), as the same now exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than the Statutes permitted the corporation to provide prior to such amendment). Such indemnification shall cover all expenses incurred by an Indemnified Person (including, but not limited to, attorneys' fees and other expenses of litigation) and all liabilities and losses (including, but not limited to, judgments, fines, ERISA or other excise taxes or penalties and amounts paid or to be paid in settlement) incurred by such person in connection therewith.

Notwithstanding the foregoing, except with respect to indemnification specified in section 3 of this Article, the corporation shall indemnify an Indemnified Person in connection with a Proceeding (or part thereof) initiated by such person only if such Proceeding (or part thereof) was authorized by the board of directors of the corporation.

For purposes of this Article:

(a) a "Proceeding" is an action, suit or proceeding, whether civil, criminal,

administrative or investigative, and any appeal therefrom;

(b) an "Indemnified Person" is a person who is, was or had agreed to become a director or an officer or a Delegate, as defined herein, of the corporation or the legal representative of any of the foregoing; and

(c) a "Delegate" is a person serving at the request of the corporation or a subsidiary of the corporation as a director, trustee, fiduciary, or officer of such subsidiary or of another corporation, partnership, joint venture, trust or other enterprise.

SECTION 2. EXPENSES. Expenses, including attorneys' fees, incurred by a person indemnified pursuant to section 1 of this Article in defending or otherwise being involved in a Proceeding shall be paid by the corporation in advance of the final disposition of such Proceeding, including any appeal therefrom, upon receipt of an undertaking (the "Undertaking") by or on behalf of such person to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation; provided, that in connection with a Proceeding (or part thereof) initiated by such person, except a Proceeding authorized by section 3 of this Article, the corporation shall pay said expenses in advance of final disposition only if such Proceeding (or part thereof) was authorized by the board of directors. A person to whom expenses are advanced pursuant hereto shall not be obligated to repay pursuant to the Undertaking until the final determination of any pending Proceeding in a court of competent jurisdiction concerning the right of such person to be indemnified or the obligation of such person to repay pursuant to the Undertaking.

SECTION 3. PROTECTION OF RIGHTS. If a claim under section 1 of this Article is not promptly paid in full by the corporation after a written claim has been received by the corporation or if expenses pursuant to section 2 of this Article have not been promptly advanced after a written request for such advancement accompanied by the Undertaking has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim or the advancement of expenses. If successful, in whole or in part, in such suit, such claimant shall also be entitled to be paid the reasonable expense thereof. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any Proceeding in advance of its final disposition where the required Undertaking has been tendered to the corporation) that indemnification of the claimant is prohibited by law, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its board of directors, independent legal counsel, or its stockholders) to have made a determination, if required, prior to the commencement of such action that indemnification of the claimant is proper in the circumstances, nor an actual determination by the corporation (including its board of directors, independent legal counsel, or its stockholders) that indemnification of the claimant is prohibited, shall be a defense to the action or create a presumption that indemnification of the claimant is prohibited.

EXHIBIT 5.1

[On Oppenheimer Wolff & Donnelly LLP Letterhead]

October 28, 1998

Select Comfort Corporation
6105 Trenton Lane North
Minneapolis, Minnesota 55442

Re: Registration Statement on Form S-1

Ladies and Gentlemen:

We have acted as counsel to Select Comfort Corporation, a Minnesota corporation (the "Company"), in connection with the registration by the Company of 4,600,000 shares (including 600,000 shares subject to the Underwriters' over-allotment option) of the Company's Common Stock, $.01 par value (the "Shares"), pursuant to the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on September 3, 1998, as amended (the "Registration Statement").

In acting as counsel for the Company and arriving at the opinions expressed below, we have examined and relied upon originals or copies, certified or otherwise identified to our satisfaction, of such records of the Company, agreements and other instruments, certificates or statements of officers of the Company, certificates of public officials and other documents we have deemed necessary or appropriate as a basis for the opinions expressed herein. As to the various questions of fact material to such opinions, we have, when relevant facts were not independently established, relied upon officers of the Company. In connection with our examination, we have assumed the genuineness of all signatures, the authenticity of all documents tendered to us as originals, the legal capacity of natural persons and the conformity to original documents of all documents submitted to us as certified or photostatic copies.

Based on the foregoing, and subject to the qualifications and limitations stated herein, it is our opinion that:

1. The Company has been duly incorporated and is an existing corporation in good standing under the laws of the State of Minnesota, with corporate power and authority to own its properties and conduct its business as described in the Prospectus and to issue the Shares in the manner and under the terms set forth in the Registration Statement.

2. The certificates for the Shares to be delivered as described in the Registration Statement are in due and proper form, and when duly countersigned by the Company's transfer agent and delivered to the Underwriters or upon the Underwriters' order against payment of the agreed consideration therefor, the Shares represented thereby will be duly authorized and validly issued, fully paid and nonassessable.

We express no opinion with respect to laws other than those of the State of Minnesota and the federal laws of the United States of America, and we assume no responsibility as to the applicability thereto, or the effect thereon, of the laws of any other jurisdiction.

We hereby consent to the filing of this opinion as Exhibit 5.1 to the Registration Statement, to its use as part of the Registration Statement, and to the use of our name under the caption "LEGAL MATTERS" in the Prospectus forming a part of the Registration Statement.

Very truly yours,

OPPENHEIMER WOLFF & DONNELLY LLP

/s/ Oppenheimer Wolff & Donnelly LLP

EXHIBIT 10.28

[Net Lease]

LEASE AGREEMENT

THIS LEASE AGREEMENT is made this 30th day of September, 1998, between ProLogis Development Services Incorporated ("Landlord"), and the Tenant named below.

TENANT:	Select Comfort Corporation
TENANT'S REPRESENTATIVE, ADDRESS, AND PHONE NO.:	Gregory T. Kliner 6105 Trenton Lane N. Minneapolis, MN 55442-3240 (612) 551-7821, Fax: (612) 551-7826
PREMISES:	That portion of the Building, containing approximately 100,800 rentable square feet, as determined by Landlord, plus parking area, driveways and common area rights, as shown on Exhibit A.
PROJECT:	Salt Lake International Center #7
BUILDING:	Select Comfort Distribution Center #1
TENANT'S PROPORTIONATE SHARE OF PROJECT:	100%
TENANT'S PROPORTIONATE SHARE OF BUILDING:	100%
LEASE TERM:	Beginning on the Commencement Date and ending on the last day of the 120th full calendar month thereafter.
COMMENCEMENT DATE:	As described in Addendum 2 and Addendum 3
INITIAL MONTHLY BASE RENT:	$33,969.00

INITIAL ESTIMATED MONTHLY OPERATING EXPENSE PAYMENTS: (estimates only and subject to adjustment to actual costs and expenses according to the provisions of this Lease)	1.	Utilities:	$N/A
	2.	Common Area Charges:	$1,068.48
	3.	Taxes:	$4,788.00
	4.	Insurance:	$252.00
	5.	Others:	$844.00
INITIAL ESTIMATED MONTHLY OPERATING EXPENSE PAYMENTS:			$6,952.48
INITIAL MONTHLY BASE RENT AND			

OPERATING EXPENSE PAYMENTS:	$40,921.48
SECURITY DEPOSIT:	$37,000, in addition to the terms as set forth in Addendum 7.
BROKER:	N/A
ADDENDA:	Addendum 1 (Base Rent Adj.), Addendum 2 (Building Shell Construction), Addendum 3 (Improvements Construction), Addendum 4 (Renewal Option), Addendum 5 (Purchase Option), Addendum 6 (Right of First Offer), Addendum 7 (Credit Enhancements), Exhibit A (Site Plan), Exhibit B (Replatting of Land Parcel)

1. GRANTING CLAUSE. In consideration of the obligation of Tenant to pay rent as herein provided and in consideration of the other terms, covenants, and conditions hereof, Landlord leases to Tenant, and Tenant takes from Landlord, the Premises, to have and to hold for the Lease Term, subject to the terms, covenants and conditions of this Lease.

2. ACCEPTANCE OF PREMISES. Tenant shall accept the Premises in its condition as of the Commencement Date, subject to all applicable laws, ordinances, regulations, covenants and restrictions. Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of Tenant's business, and Tenant waives any implied warranty that the Premises are suitable for Tenant's intended purposes. Except for latent defects for which Tenant provides Landlord notice within 60 days after taking possession of the Premises and as provided in Paragraph 10, in no event shall Landlord have any obligation for any defects in the Premises or any limitation on its use. The taking of possession of the Premises shall be conclusive evidence that Tenant accepts the Premises and that the Premises were in good condition at the time possession was taken except for items that are Landlord's responsibility under Paragraph 10, and any punchlist items or latent defects or as otherwise agreed to in writing by Landlord and Tenant.

3. USE. The Premises shall be used only for the purpose of receiving, storing, shipping and selling (but limited to wholesale sales, employee discount sales, sales made by direct shipment to Tenant's consumers, and limited showroom sales) products, materials and merchandise made and/or distributed by Tenant, light manufacturing, and for such other lawful purposes as may be incidental thereto. Tenant shall not conduct or give notice of any auction, liquidation, or going out of business sale on the Premises. Tenant will use the Premises in a careful, safe and proper manner and will not commit waste, overload the floor or structure of the Premises or subject the Premises to use that would damage the Premises. Tenant shall not permit

any objectionable or unpleasant odors, smoke, dust, gas, noise, or vibrations to emanate from the Premises, or take any other action that would constitute a nuisance or would disturb, unreasonably interfere with, or endanger Landlord or any tenants of the Project. Outside storage, including without limitation, storage of non-operable trucks and other non-operable vehicles, is prohibited without Landlord's prior written consent, which shall not be unreasonably withheld; provided, however Landlord hereby consents to the outside storage of Tenant's trucks and tractor-trailers used in Tenant's normal business operations, not to exceed 5 days and so long as such trucks and tractor-trailers do not interfere with the ingress and egress of the Project. Tenant, at its sole expense, shall use and occupy the Premises in compliance with all laws, including, without limitation, the Americans With Disabilities Act, orders, judgments, ordinances, regulations, codes, directives, permits, licenses, covenants and restrictions now or hereafter applicable to the Premises (collectively, "Legal Requirements"). The Premises shall not be used as a place of public accommodation under the

Americans With Disabilities Act or similar state statutes or local ordinances or any regulations promulgated thereunder, all as may be amended from time to time. Tenant shall, at its expense, make any non-structural alterations or modifications, within or without the Premises, that are required by Legal Requirements because of Tenant's particular use or occupation of the Premises. Tenant will not use or permit the Premises to be used for any purpose or in any manner that would void Tenant's or Landlord's insurance, increase the insurance risk, or cause the disallowance of any sprinkler credits. If any increase in the cost of any insurance on the Premises or the Project is caused by Tenant's use or occupation of the Premises, or because Tenant vacates the Premises, then Tenant shall pay the amount of such increase to Landlord. Any occupation of the Premises by Tenant prior to the Commencement Date shall be subject to all obligations of Tenant under this Lease.

Notwithstanding anything contained herein to the contrary, Tenant's obligations hereunder shall relate only to the interior of the Premises and any changes to the Project that relate solely to the specific manner of use of the Premises by Tenant; and Landlord shall make all other additions to or modifications of the Project required from time to time by Legal Requirements. The cost of such additions or modifications made by Landlord shall be included in Operating Expenses pursuant to Paragraph 6 of this Lease, except for those additions or modifications which are Landlord's sole responsibility pursuant to Paragraph 10 of this Lease.

Notwithstanding anything contained herein to the contrary, Tenant may store its pallets in certain designated storage areas as mutually agreed to by Landlord and Tenant.

4. BASE RENT. Tenant shall pay Base Rent in the amount set forth above. The first month's Base Rent, the Security Deposit, and the first monthly installment of estimated Operating Expenses (as hereafter defined) shall be due and payable on the date hereof, and Tenant promises to pay to Landlord in advance, without demand, deduction or set-off (except as expressly provided for in this Lease), monthly installments of Base Rent on or before the first day of each calendar month succeeding the Commencement Date. Payments of Base Rent for any fractional calendar month shall be prorated. All payments required to be made by Tenant to Landlord hereunder shall be payable at such address as Landlord may specify from time to time by written notice delivered in accordance herewith. The obligation of Tenant to pay Base Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations. Tenant shall have no right at any time to abate, reduce, or set-off any rent due

hereunder except as may be expressly provided in this Lease. If Tenant is delinquent in any monthly installment of Base Rent or of Operating Expenses beyond 5 business days after the due date thereof, and after receipt of notice as provided below, Tenant shall pay to Landlord on demand a late charge equal to 5 percent of such delinquent sum. Tenant shall not be obligated to pay the late charge until Landlord has given Tenant 5 business days written notice of the delinquent payment (which may be given at any time during the delinquency) and Tenant has failed to remit said payment within such 5-day period; provided, however, that such notice shall not be required more than twice in any 12-month period. The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as a penalty or as limiting Landlord's remedies in any manner.

5. SECURITY DEPOSIT. The Security Deposit shall be held by Landlord as security for the performance of Tenant's obligations under this Lease. The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon each occurrence of an Event of Default (hereinafter defined), Landlord may use all or part of the Security Deposit to pay delinquent payments due under this Lease, and the cost of any damage, injury, expense or liability caused by such Event of Default, without prejudice to any other remedy provided herein or provided by law. Tenant shall pay Landlord on demand the amount that will restore the Security Deposit to its original amount. Landlord's obligation respecting the Security Deposit is that of a debtor, not a trustee; no interest shall accrue thereon. The Security Deposit shall be the property of Landlord, but shall be paid to Tenant when Tenant's obligations under this Lease have been completely fulfilled. Landlord shall be released from any obligation with respect to the Security Deposit upon transfer of this Lease and the Premises to a person or entity assuming

Landlord's obligations under this Paragraph 5. See Addendum 7.

6. OPERATING EXPENSE PAYMENTS. During each month of the Lease Term, on the same date that Base Rent is due, Tenant shall pay Landlord an amount equal to 1/12 of the annual cost, as estimated by Landlord from time to time, of Tenant's Proportionate Share (hereinafter defined) of Operating Expenses for the Project. Payments thereof for any fractional calendar month shall be prorated. The term "Operating Expenses" means all costs and expenses incurred by Landlord with respect to the ownership, maintenance, and operation of the Project including, but not limited to costs of: Taxes (hereinafter defined) and fees payable to tax consultants and attorneys for consultation and contesting taxes; insurance; utilities; maintenance, repair and replacement of all portions of the Project, including without limitation, paving and parking areas, roads, roofs, alleys, and driveways, mowing, landscaping, exterior painting, utility lines, heating, ventilation and air conditioning systems, lighting, electrical systems and other mechanical and building systems; amounts paid to contractors and subcontractors for work or services performed in connection with any of the foregoing; charges or assessments of any association to which the Project is subject; property management fees payable to a property manager, including any affiliate of Landlord, in the amount of $844.00 for the first year of the Lease Term, increased 4% annually throughout the remainder of the Lease Term; security services, if any; trash collection, sweeping and removal; and additions or alterations made by Landlord to the Project or the Building in order to comply with Legal Requirements (other than those expressly required herein to be made by Tenant) or that are appropriate to the continued operation of the Project or the Building as a bulk warehouse facility in the market area, provided that the cost of additions or alterations that are required to be capitalized for federal income tax

purposes shall be amortized on a straight line basis over a period equal to the lesser of the useful life thereof for federal income tax purposes or 10 years. Operating Expenses do not include costs, expenses, depreciation or amortization for capital repairs and capital replacements required to be made by Landlord under Paragraph 10 of this Lease, debt service under mortgages or ground rent under ground leases, costs of restoration to the extent of net insurance proceeds received by Landlor with respect thereto, leasing commissions (if applicable), interest, principal, or other payments on account of any indebtedness that is secured by any encumbrance on any part of the Project, or rental or other payments under any ground lease, or any payments in the nature of returns on or of equity of any kind, costs of selling, syndicating, financing, mortgaging or hypothecating any part of or interest in the Project, costs for which Landlord is reimbursed from any other source, costs of removing Hazardous Materials or of correcting any other conditions in order to comply with any environmental law or ordinance (but this exclusion shall not constitute a release by Landlord of Tenant for any such costs for which Tenant is liable pursuant to Paragraph 30 of this Lease), depreciation, reserves of any kind, including replacement reserves and reserves for bad debt or lost rent, or any other charge not involving the payment of money to third parties, costs incurred in connection with the construction or remodeling of the Project or any other improvements now or hereafter located thereon, correction of defects in design or construction, Landlord's overhead costs, including salaries, equipment, supplies, accounting and legal fees, rent and other occupancy costs or any other costs associated with the operation or internal organization and function of Landlord as a business entity (but this provision does not prevent the payment of a management fee to Landlord as provided in this Paragraph 6), costs incurred as a result of Landlord's violation of any lease, contract, law or ordinance, including fines and penalties, late charges, interest or penalties of any kind for late or other improper payment of any public or private obligation, including ad valorem taxes, or the costs of renovating space for tenants (if applicable).

If Tenant's total payments of Operating Expenses for any year are less than Tenant's Proportionate Share of actual Operating Expenses for such year, then Tenant shall pay the difference to Landlord within 30 days after demand, and if more, then Landlord shall retain such excess and credit it against Tenant's next payments, except that Landlord shall refund such excess to Tenant within 30 days following the last calendar year of the Lease Term. For purposes of calculating Tenant's Proportionate Share of Operating Expenses, a year shall mean a calendar year except the first year, which shall begin on the Commencement Date, and the last year, which shall end on the expiration of this

Lease. With respect to Operating Expenses which Landlord allocates to the entire Project, Tenant's "Proportionate Share" shall be the percentage set forth on the first page of this Lease as Tenant's Proportionate Share of the Project as reasonably adjusted by Landlord in the future for changes in the physical size of the Premises or the Project; and, with respect to Operating Expenses which Landlord allocates only to the Building, Tenant's "Proportionate Share" shall be the percentage set forth on the first page of this Lease as Tenant's Proportionate Share of the Building as reasonably adjusted by Landlord in the future for changes in the physical size of the Premises or the Building. Landlord may equitably increase Tenant's Proportionate Share for any item of expense or cost reimbursable by Tenant that relates to a repair, replacement, or service that benefits only the Premises or only a portion of the Project or Building that includes the Premises or that varies with occupancy or use. The estimated Operating Expenses for the Premises set forth on the first page of this Lease are only estimates, and Landlord makes no guaranty or warranty that such estimates will be accurate.

7. UTILITIES. Tenant shall pay for all water, gas, electricity, heat, light, power, telephone, sewer, sprinkler services, refuse and trash collection, and other utilities and services used on the Premises, all maintenance charges for utilities, and any storm sewer charges or other similar charges for utilities imposed by any governmental entity or utility provider, together with any taxes, penalties, surcharges or the like pertaining to Tenant's use of the Premises. Landlord shall cause at Landlord's expense all utilities, except for water and sewer, to be separately metered or charged directly to Tenant by the provider. Tenant shall pay its share of all charges for jointly metered utilities based upon consumption, as reasonably determined by Landlord. No interruption or failure of utilities shall result in the termination of this Lease or the abatement of rent. Tenant agrees to limit use of water and sewer for normal restroom use, in the event the Building becomes a multi-tenant facility.

Notwithstanding anything to the contrary contained in Paragraph 7 of this Lease, if an interruption or cessation of utilities results from a cause within the Landlord's reasonable control and the Premises are not usable by Tenant for the conduct of Tenant's business as a result thereof, Base Rent and applicable Operating Expenses not actually incurred by Tenant shall be abated for the period which commences three (3) business days after the date Tenant gives to Landlord notice of such interruption until such utilities are restored.

8. TAXES. Landlord shall pay all taxes, assessments and governmental charges (collectively referred to as "Taxes") that accrue against the Project during the Lease Term, which shall be included as part of the Operating Expenses charged to Tenant. Landlord may contest by appropriate legal proceedings the amount, validity, or application of any Taxes or liens thereof. If Landlord fails to contest the real estate taxes, Tenant shall have the right to request Landlord to contest such taxes, and Landlord shall so contest, at Tenant's sole cost and expense (including, without limitation, Landlord's reasonable attorneys' fees and reasonable fees payable to tax consultants and attorneys for consultation and contesting taxes) , if, in Landlord's reasonable judgment, such contest is warranted; provided, however, Tenant's request of such contesting of Taxes shall be limited to one request in a calendar year. Landlord shall cooperate in the institution and prosecution of any such proceedings of contesting taxes and will execute any documents reasonably required therefor. All capital levies or other taxes assessed or imposed on Landlord upon the rents payable to Landlord under this Lease and any franchise tax, any excise, transaction, sales or privilege tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents from the Premises and/or the Project or any portion thereof shall be paid by Tenant to Landlord monthly in estimated installments or upon demand, at the option of Landlord, as additional rent; provided, however, in no event shall Tenant be liable for taxes and/or assessments which are attributable to land or buildings not otherwise included within the Premises nor shall Tenant be liable for any net income taxes imposed on Landlord unless such net income taxes are in substitution for any Taxes payable hereunder. If any such tax or excise is levied or assessed directly against Tenant, then Tenant shall be responsible for and shall pay the same at such times and in such manner as the taxing authority shall require. Tenant shall be liable for all taxes levied or assessed against any personal property or fixtures placed in the Premises, whether levied or assessed against Landlord or Tenant.

Notwithstanding anything contained herein to the contrary, in the event that

Landlord should receive a tax refund or credit from any taxing authority for any period in respect of which Tenant paid its Proportionate Share of Taxes (including the tax which is the subject of such refund), Landlord shall promptly notify Tenant thereof and refund to Tenant Tenant's Proportionate Share of the net amount of such refund or credit, after deducting Landlord's reasonable costs incurred in securing such refund or credit. The provisions of this paragraph shall survive the termination of this Lease.

9. INSURANCE. Landlord shall maintain all risk property insurance covering the full replacement cost of the Building. Landlord may, but is not obligated to, maintain such other insurance and additional coverages as it may deem reasonably necessary, including, but not limited to, commercial liability insurance and rent loss insurance. All such insurance shall be included as part of the Operating Expenses charged to Tenant. The Project or Building may be included in a blanket policy (in which case the cost of such insurance allocable to the Project or Building will be determined by Landlord based upon the insurer's cost calculations). Tenant shall also reimburse Landlord for any increased premiums or additional insurance as a result of Tenant's particular use of the Premises.

Tenant, at its expense, shall maintain during the Lease Term: all risk property insurance covering the full replacement cost of all property and improvements installed or placed in the Premises by Tenant at Tenant's expense; worker's compensation insurance with no less than the minimum limits required by law; employer's liability insurance with such limits as required by law; and commercial liability insurance, with a minimum limit of $1,000,000 per occurrence and a minimum umbrella limit of $1,000,000, for a total minimum combined general liability and umbrella limit of $2,000,000 (together with such additional umbrella coverage as Landlord may reasonably require) for property damage, personal injuries, or deaths of persons occurring in or about the Premises. Landlord may from time to time require reasonable increases in any such limits. The commercial liability policies shall name Landlord as an additional insured, insure on an occurrence and not a claims-made basis, be issued by insurance companies which are reasonably acceptable to Landlord, not be cancelable unless 30 days prior written notice shall have been given to Landlord, contain a hostile fire endorsement and a contractual liability endorsement and provide primary coverage to Landlord (any policy issued to Landlord providing duplicate or similar coverage shall be deemed excess over Tenant's policies). Such policies or certificates thereof shall be delivered to Landlord by Tenant upon commencement of the Lease Term and upon each renewal of said insurance. Landlord hereby agrees that Tenant's insurance coverages hereunder may be in the form of a blanket policy.

The all risk property insurance obtained by Landlord and Tenant shall include a waiver of subrogation by the insurers and all rights based upon an assignment from its insured, against Landlord or Tenant, their officers, directors, employees, managers, agents, invitees and contractors, in connection with any loss or damage thereby insured against. Neither party nor its officers, directors, employees, managers, agents, invitees or contractors shall be liable to the other for loss or damage caused by any risk coverable by all risk property insurance, and each party waives any claims against the other party, and its officers, directors, employees, managers, agents, invitees and contractors for such loss or damage. The failure of a party to insure its property shall not void this waiver. Landlord and its agents, employees and contractors shall not be liable for, and Tenant hereby waives all claims against such parties for, business interruption

and losses occasioned thereby sustained by Tenant or any person claiming through Tenant resulting from any accident or occurrence in or upon the Premises or the Project from any cause whatsoever, including without limitation, damage caused in whole or in part, directly or indirectly, by the negligence of Landlord or its agents, employees or contractors.

10. LANDLORD'S REPAIRS. Landlord shall maintain, at its expense, the

structural soundness of the roof, foundation, and exterior walls of the Building in good repair, reasonable wear and tear and uninsured losses and damages caused by Tenant, its agents and contractors excluded. The term "walls" as used in this Paragraph 10 shall not include windows, glass or plate glass, doors or overhead doors, special store fronts, dock bumpers, dock plates or levelers, or office entries. Tenant shall promptly give Landlord written notice of any repair required by Landlord pursuant to this Paragraph 10, after which Landlord shall have a reasonable opportunity to repair.

11. TENANT'S REPAIRS. Landlord, at Tenant's expense as provided in Paragraph 6, shall maintain in good repair and condition the parking areas and other common areas of the Building, including, but not limited to driveways, alleys, landscape and grounds surrounding the Premises. Subject to Landlord's obligation in Paragraph 10 and subject to Paragraphs 9 and 15, Tenant, at its expense, shall repair, replace and maintain in good condition all portions of the Premises and all areas, improvements and systems exclusively serving the Premises including, without limitation, dock and loading areas, truck doors, plumbing, water and sewer lines up to points of common connection, fire sprinklers and fire protection systems, entries, doors, ceilings and roof membrane, windows, interior walls, and the interior side of demising walls, and heating, ventilation and air conditioning systems. Such repair and replacements include capital expenditures and repairs whose benefit may extend beyond the Term. Heating, ventilation and air conditioning systems and other mechanical and building systems serving the Premises shall be maintained at Tenant's expense pursuant to maintenance service contracts entered into by Tenant. The scope of services and contractors under such maintenance contracts shall be reasonably approved by Landlord. If Tenant fails to perform any repair or replacement for which it is responsible within the time period provided for in this Lease, Landlord may perform such work and be reimbursed by Tenant within 30 days after demand therefor. Subject to Paragraphs 9 and 15, Tenant shall bear the full cost of any repair or replacement to any part of the Building or Project that results from damage caused by Tenant, its agents, contractors, or invitees and any repair that benefits only the Premises.

12. TENANT-MADE ALTERATIONS AND TRADE FIXTURES. Any alterations, additions, or improvements made by or on behalf of Tenant to the Premises ("Tenant-Made Alterations") in excess of $50,000 per occurrence shall be subject to Landlord's prior written consent, which shall not be unreasonably withheld provided that such alteration does not materially affect the slab, structure or the roof of the Building, or modify the utility systems of the Project. Tenant shall cause, at its expense, all Tenant-Made Alterations to comply with insurance requirements and with Legal Requirements and shall construct at its expense any alteration or modification required by Legal Requirements as a result of any Tenant-Made Alterations. All Tenant-Made Alterations shall be constructed in a good and workmanlike manner by contractors reasonably acceptable to Landlord and only good grades of materials shall be used. All plans and specifications for any Tenant-Made Alterations shall be submitted to Landlord for its approval.

Landlord may monitor construction of the Tenant-Made Alterations. Tenant shall reimburse Landlord for its reasonable out-of-pocket costs in reviewing plans and specifications. Landlord's right to review plans and specifications and to monitor construction shall be solely for its own benefit, and Landlord shall have no duty to see that such plans and specifications or construction comply with applicable laws, codes, rules and regulations. Tenant shall provide Landlord with the identities and mailing addresses of all persons performing work or supplying materials, prior to beginning such construction, and Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable law. Tenant shall furnish security or make other arrangements satisfactory to Landlord to assure payment for the completion of all work free and clear of liens and shall provide certificates of insurance for worker's compensation and other coverage in amounts and from an insurance company satisfactory to Landlord protecting Landlord against liability for personal injury or property damage during construction. Upon completion of any Tenant-Made Alterations, Tenant shall deliver to Landlord sworn statements setting forth the names of all contractors and subcontractors who did work on the Tenant-Made Alterations and final lien waivers from all such contractors and subcontractors. Upon surrender of the Premises, all Tenant-Made Alterations and any leasehold improvements constructed by Landlord or Tenant shall remain on the Premises as Landlord's property, except to the extent Landlord requires removal at

Tenant's expense of any such items or Landlord and Tenant have otherwise mutually agreed to in writing of which Tenant-Made Alterations shall remain the property of Tenant and shall be removed by Tenant upon surrender of the Premises. At Tenant's request, Landlord shall provide Tenant, at the time of Tenant's request for approval of Tenant-Made Alterations, written notification of which Tenant-Made Alterations Landlord will require Tenant to remove upon surrender of the Premises. Tenant shall repair any damage caused by such removal.

Tenant, at its own cost and expense and without Landlord's prior approval, may erect such shelves, bins, machinery and trade fixtures (collectively "Trade Fixtures") in the ordinary course of its business provided that such items do not alter the basic character of the Premises, do not overload or damage the Premises, and may be removed without injury to the Premises, and the construction, erection, and installation thereof complies with all Legal Requirements and with Landlord's requirements set forth above. Tenant shall remove its Trade Fixtures and shall repair any damage caused by such removal.

13. SIGNS. Tenant shall not make any changes to the exterior of the Premises, install any exterior lights, decorations, balloons, flags, pennants, banners, or painting, or erect or install any signs, windows or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior of the Premises, without Landlord's prior written consent, except that Tenant may erect temporary signage on the exterior of the Premises for a 14 day period once in a calendar year, provided that such temporary signage (i) shall be in good taste and for a good business purpose, (ii) is related solely to Tenant's business operations, and (iii) does not involve the roof or structure of the Building. Upon surrender or vacation of the Premises, Tenant shall have removed all signs and repair, paint, and/or replace the building facia surface to which its signs are attached. Tenant shall obtain all applicable governmental permits and approvals for sign and exterior treatments. All signs, decorations, advertising media, blinds, draperies and other window treatment or bars or other security installations visible from outside the Premises shall be subject to Landlord's approval and conform in all respects to Landlord's

requirements.

Notwithstanding anything contained herein to the contrary, Tenant shall be allowed to place temporary, promotional or special event signage

14. PARKING. Tenant shall be entitled to park in those areas designated on Exhibit A. Subject to Paragraph 20, Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties.

15. RESTORATION. If at any time during the Lease Term the Premises are damaged by a fire or other casualty, Landlord shall notify Tenant within 60 days after such damage as to the amount of time Landlord reasonably estimates it will take to restore the Premises. If the restoration time is estimated to exceed 6 months, either Landlord or Tenant may elect to terminate this Lease upon notice to the other party given no later than 30 days after Landlord's notice. If neither party elects to terminate this Lease or if Landlord estimates that restoration will take 6 months or less, then, subject to receipt of sufficient insurance proceeds, Landlord shall promptly restore the Premises excluding the improvements installed by Tenant or by Landlord and paid by Tenant, subject to delays arising from the collection of insurance proceeds or from Force Majeure events. Tenant at Tenant's expense shall promptly perform, subject to delays arising from the collection of insurance proceeds, or from Force Majeure events, all repairs or restoration not required to be done by Landlord and shall promptly re-enter the Premises and commence doing business within 30 days after restoration in accordance with this Lease. Notwithstanding the foregoing, either party may terminate this Lease if the Premises are damaged during the last year of the Lease Term and Landlord reasonably estimates that it will take more than one month to repair such damage. Tenant shall pay to Landlord with respect to any damage to the Premises the amount of the commercially reasonable deductible under Landlord's insurance policy (not to exceed $10,000) within 10 days after presentment of Landlord's invoice. If the damage involves the premises of other tenants, Tenant shall pay the portion of the deductible that the cost of the restoration of the Premises bears to the total cost of restoration, as determined by Landlord. Base Rent and Operating Expenses shall

be abated for the period of repair and restoration in the proportion which the area of the Premises, if any, which is not usable by Tenant bears to the total area of the Premises. Such abatement shall be the sole remedy of Tenant, and except as provided herein, Tenant waives any right to terminate the Lease by reason of damage or casualty loss.

16. CONDEMNATION. If any part of the Premises or the Project should be taken for any public or quasi-public use under governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof (a "Taking" or "Taken"), and the Taking would prevent or materially interfere with Tenant's use of the Premises or in Landlord's judgment would materially interfere with or impair its ownership or operation of the Project, then upon written notice by Landlord or Tenant this Lease shall terminate and Base Rent shall be apportioned as of said date. If part of the Premises shall be Taken, and this Lease is not terminated as provided above, the Base Rent payable hereunder during the unexpired Lease Term shall be reduced to such extent as may be fair and reasonable under the circumstances. In the event of any such Taking, Landlord shall be entitled to receive the entire price or award from any such Taking without any payment to Tenant, and Tenant hereby assigns to Landlord Tenant's

interest, if any, in such award. Tenant shall have the right, to the extent that same shall not diminish Landlord's award, to make a separate claim against the condemning authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant for moving expenses and damage to Tenant's Trade Fixtures and other matters, if a separate award for such items is made to Tenant. Notwithstanding anything contained herein to the contrary, Landlord shall use a reasonable portion of any condemnation proceeds it receives to repair any damage to the Premises caused by such condemnation.

17. ASSIGNMENT AND SUBLETTING. Without Landlord's prior written consent, Tenant shall not assign this Lease or sublease the Premises or any part thereof or mortgage, pledge, or hypothecate its leasehold interest or grant any concession or license within the Premises and any attempt to do any of the foregoing shall be void and of no effect. For purposes of this paragraph, a single transfer of 50% or more of the total ownership interests of Tenant shall be deemed an assignment of this Lease unless such ownership interests are or become publicly traded. Notwithstanding the above, Tenant may assign or sublet the Premises, or any part thereof, to any entity controlling Tenant, controlled by Tenant or under common control with Tenant (a "Tenant Affiliate"), without the prior written consent of Landlord. Tenant shall reimburse Landlord for all of Landlord's reasonable out-of-pocket expenses in connection with any assignment or sublease. Upon Landlord's receipt of Tenant's written notice of a desire to assign or sublet the Premises, or any part thereof (other than to a Tenant Affiliate) or as provided in the paragraph immediately below, Landlord may, by giving written notice to Tenant within 30 days after receipt of Tenant's notice, terminate this Lease with respect to the space described in Tenant's notice, as of the date specified in Tenant's notice for the commencement of the proposed assignment or sublease.

Provided no default has occurred and is continuing under this Lease, upon 10 days prior written notice to Landlord, Tenant may, without Landlord's prior written consent, assign this Lease to an entity into which Tenant is merged or consolidated or to an entity to which substantially all of Tenant's assets are transferred, provided (x) such merger, consolidation, or transfer of assets is for a good business purpose and not principally for the purpose of transferring Tenant's leasehold estate, and (y) the assignee or successor entity has a net worth at least equal to $22 million dollars immediately prior to such merger, consolidation, or transfer.

Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully responsible and liable for the payment of the rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignments or sublettings), unless Landlord, at its sole discretion, releases Tenant from such obligations upon assumption of such obligations by the assignee or sublessee. In the event that the rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment plus any bonus or other consideration therefor or incident thereto) exceeds the rental payable under

this Lease, then Tenant shall be bound and obligated to pay Landlord as additional rent hereunder all such excess rental and other excess consideration within 20 days following receipt thereof by Tenant.

If this Lease be assigned or if the Premises be subleased (whether in whole or in

part) or in the event of the mortgage, pledge, or hypothecation of Tenant's leasehold interest or grant of any concession or license within the Premises or if the Premises be occupied in whole or in part by anyone other than Tenant, then upon a default by Tenant hereunder Landlord may collect rent from the assignee, sublessee, mortgagee, pledgee, party to whom the leasehold interest was hypothecated, concessionee or licensee or other occupant and, except to the extent set forth in the preceding paragraph, apply the amount collected to the next rent payable hereunder; and all such rentals collected by Tenant shall be held in trust for Landlord and immediately forwarded to Landlord. No such transaction or collection of rent or application thereof by Landlord, however, shall be deemed a waiver of these provisions or a release of Tenant from the further performance by Tenant of its covenants, duties, or obligations hereunder.

18. INDEMNIFICATION. Except for the negligence of Landlord, its agents, employees or contractors, and to the extent permitted by law, Tenant agrees to indemnify, defend and hold harmless Landlord, and Landlord's agents, employees and contractors, from and against any and all losses, liabilities, damages, costs and expenses (including attorneys' fees) resulting from claims by third parties for injuries to any person and damage to or theft or misappropriation or loss of property occurring in or about the Project and arising from the use and occupancy of the Premises or from any activity, work, or thing done, permitted or suffered by Tenant in or about the Premises or due to any other act or omission of Tenant, its subtenants, assignees, invitees, employees, contractors and agents. The furnishing of insurance required hereunder shall not be deemed to limit Tenant's obligations under this Paragraph 18.

19. INSPECTION AND ACCESS. Landlord and its agents, representatives, and contractors may enter the Premises at any reasonable time to inspect the Premises and to make such repairs as may be required or permitted pursuant to this Lease and for any other business purpose; Landlord and Landlord's representatives may enter the Premises during business hours for the purpose of showing the Premises to prospective purchasers and, during the last year of the Lease Term, to prospective tenants; Landlord may erect a suitable sign on the Premises stating the Premises are available to let or that the Project is available for sale; Landlord may grant easements, make public dedications, designate common areas and create restrictions on or about the Premises, provided that none of the foregoing materially interferes with Tenant's use or occupancy of the Premises. At Landlord's request, Tenant shall execute such instruments as may be reasonably necessary for such easements, dedications or restrictions.

20. QUIET ENJOYMENT. If Tenant shall perform all of the covenants and agreements herein required to be performed by Tenant, Tenant shall, subject to the terms of this Lease, at all times during the Lease Term, have peaceful and quiet enjoyment of the Premises against any person claiming by, through or under Landlord.

21. SURRENDER. Upon termination of the Lease Term or earlier termination of Tenant's right of possession, Tenant shall surrender the Premises to Landlord in the same condition as received, broom clean, ordinary wear and tear and casualty loss and condemnation covered by Paragraphs 15 and 16 excepted. Any Trade Fixtures, Tenant-Made Alterations and property not so removed by Tenant as permitted or required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant

waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property. All obligations of Tenant hereunder not fully performed as of the termination of the Lease Term shall survive the termination of the Lease Term, including without limitation,

indemnity obligations, payment obligations with respect to Operating Expenses and obligations concerning the condition and repair of the Premises.

22. HOLDING OVER. If Tenant retains possession of the Premises after the termination of the Lease Term, unless otherwise agreed in writing, such possession shall be subject to immediate termination by Landlord at any time, and all of the other terms and provisions of this Lease (excluding any expansion or renewal option or other similar right or option) shall be applicable during such holdover period, except that Tenant shall pay Landlord from time to time, upon demand, as Base Rent for the holdover period, an amount equal to 150% of the Base Rent in effect on the termination date, computed on a monthly basis for each month or part thereof during such holding over. All other payments shall continue under the terms of this Lease. In addition, Tenant shall be liable for all damages incurred by Landlord as a result of such holding over. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided or agreed to by Landlord in writing, and this Paragraph 22 shall not be construed as consent for Tenant to retain possession of the Premises.

23. EVENTS OF DEFAULT. Each of the following events shall be an event of default ("Event of Default") by Tenant under this Lease:

(i) Tenant shall fail to pay any installment of Base Rent or any other payment required herein when due, and such failure shall continue for a period of 5 business days after receipt of notice from Landlord to Tenant that such payment was due; provided, however, that Landlord shall not be obligated to provide written notice of such failure more than 2 times in any consecutive 12-month period, and the failure of Tenant to pay any third or subsequent installment of Base Rent or any other payment required herein when due in any consecutive 12-month period shall constitute an Event of Default by Tenant under this Lease without the requirement of notice or opportunity to cure.

(ii) Tenant or any guarantor or surety of Tenant's obligations hereunder shall (A) make a general assignment for the benefit of creditors; (B) commence any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively a "proceeding for relief"); (C) become the subject of any proceeding for relief which is not dismissed within 60 days of its filing or entry; or (D) die or suffer a legal disability (if Tenant, guarantor, or surety is an individual) or be dissolved or otherwise fail to maintain its legal existence (if Tenant, guarantor or surety is a corporation, partnership or other entity).

(iii) Any insurance required to be maintained by Tenant pursuant to this Lease shall be canceled or terminated or shall expire or shall be reduced or materially changed,

except, in each case, as permitted in this Lease.

(iv) Tenant shall not occupy or shall vacate the Premises or shall fail to continuously operate its business at the Premises for the permitted use set forth herein, whether or not Tenant is in monetary or other default under this Lease. Tenant's vacating of the Premises shall not constitute an Event of Default if, prior to vacating the Premises, Tenant has made arrangements reasonably acceptable to Landlord to (a) insure that Tenant's insurance for the Premises will not be voided or canceled with respect to the Premises as a result of such vacancy, (b) insure that the Premises are secured and not subject to vandalism, and (c) insure that the Premises will be properly maintained after such vacation. Tenant shall inspect the Premises at least every 2 months and report every 2 months in writing to Landlord on the condition of the Premises.

(v) Tenant shall attempt or there shall occur any assignment, subleasing or other transfer of Tenant's interest in or with respect to this Lease except as otherwise permitted in this Lease.

(vi) Subject to the terms of Paragraph 28 of this Lease, Tenant shall fail to discharge any lien placed upon the Premises in violation of this Lease within 30 days after any such lien or encumbrance is filed against the Premises.

(vii) Tenant shall fail to comply with any provision of this Lease other than those specifically referred to in this Paragraph 23, and except as otherwise expressly provided herein, such default shall continue for more than 30 days after Landlord shall have given Tenant written notice of such default.

24. LANDLORD'S REMEDIES. Upon each occurrence of an Event of Default and so long as such Event of Default shall be continuing, Landlord may at any time thereafter at its election: terminate this Lease or Tenant's right of possession, (but Tenant shall remain liable as hereinafter provided) and/or pursue any other remedies at law or in equity. Upon the termination of this Lease or termination of Tenant's right of possession, it shall be lawful for Landlord, without formal demand or notice of any kind, to re-enter the Premises by summary dispossession proceedings or any other action or proceeding authorized by law and to remove Tenant and all persons and property therefrom. If Landlord re-enters the Premises, Landlord shall have the right to keep in place and use, or remove and store, all of the furniture, fixtures and equipment at the Premises.

If Landlord terminates this Lease, Landlord may recover from Tenant the sum of: all Base Rent and all other amounts accrued hereunder to the date of such termination; the cost of reletting the whole or any part of the Premises, including without limitation brokerage fees and/or leasing commissions incurred by Landlord, and costs of removing and storing Tenant's or any other occupant's property, repairing, altering, remodeling, or otherwise putting the Premises into condition reasonably acceptable to a new tenant or tenants, and all reasonable expenses incurred by Landlord in pursuing its remedies, including reasonable attorneys' fees and court costs; and the excess of the then present value of the Base Rent and other amounts payable by Tenant under this Lease as would otherwise have been required to be paid by Tenant to Landlord

during the period following the termination of this Lease measured from the date of such termination to the expiration date stated in this Lease, over the present value of any net amounts which Tenant establishes Landlord can reasonably expect to recover by reletting the Premises for such period, taking into consideration the availability of acceptable tenants and other market conditions affecting leasing. Such present values shall be calculated at a discount rate equal to the 90-day U.S. Treasury bill rate at the date of such termination.

If Landlord terminates Tenant's right to possession without terminating the Lease after an Event of Default, Landlord shall use commercially reasonable efforts to relet the Premises; provided, however, (a) Landlord shall not be obligated to accept any tenant proposed by Tenant, (b) Landlord shall have the right to lease any other space controlled by Landlord first, and (c) any proposed tenant shall meet all of Landlord's reasonable leasing criteria. For the purpose of such reletting Landlord is authorized to make any repairs, changes, alterations, or additions in or to the Premises as Landlord deems reasonably necessary or desirable. If the Premises are not relet, then Tenant shall pay to Landlord as damages a sum equal to the amount of the rental reserved in this Lease for such period or periods, plus the cost of recovering possession of the Premises (including attorneys' fees and costs of suit), the unpaid Base Rent and other amounts accrued hereunder at the time of repossession, and the reasonable costs incurred in any attempt by Landlord to relet the Premises. If the Premises are relet and a sufficient sum shall not be realized from such reletting [after first deducting therefrom, for retention by Landlord, the unpaid Base Rent and other amounts accrued hereunder at the time of reletting, the reasonable cost of recovering possession (including attorneys' fees and costs of suit), all of the costs and expense of repairs, changes, alterations, and additions, the reasonable expense of such reletting (including without limitation brokerage fees and leasing commissions) and the reasonable cost of collection of the rent accruing therefrom] to satisfy the rent provided for in this Lease to be paid, then Tenant shall immediately satisfy and pay any such deficiency. Any such payments due Landlord shall be made upon demand therefor from time to time and Tenant agrees that Landlord may file suit to recover any sums falling due from time to time. Notwithstanding any such

releting without termination, Landlord may at any time thereafter elect in writing to terminate this Lease for such previous breach.

Exercise by Landlord of any one or more remedies hereunder granted or otherwise available shall not be deemed to be an acceptance of surrender of the Premises and/or a termination of this Lease by Landlord, whether by agreement or by operation of law, it being understood that such surrender and/or termination can be effected only by the written agreement of Landlord and Tenant. Any law, usage, or custom to the contrary notwithstanding, Landlord shall have the right at all times to enforce the provisions of this Lease in strict accordance with the terms hereof; and the failure of Landlord at any time to enforce its rights under this Lease strictly in accordance with same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions, and covenants of this Lease or as having modified the same. Tenant and Landlord further agree that forbearance or waiver by Landlord to enforce its rights pursuant to this Lease or at law or in equity, shall not be a waiver of Landlord's right to enforce one or more of its rights in connection with any subsequent default. A receipt by Landlord of rent or other payment with knowledge of the breach of any covenant hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord. To the

greatest extent permitted by law, Tenant waives the service of notice of Landlord's intention to re-enter as provided for in any statute, or to institute legal proceedings to that end, and also waives all right of redemption in case Tenant shall be dispossessed by a judgment or by warrant of any court or judge. The terms "enter," "re-enter," "entry" or "re-entry," as used in this Lease, are not restricted to their technical legal meanings. Any releting of the Premises shall be on such terms and conditions as Landlord in its sole discretion may determine (including without limitation a term different than the remaining Lease Term, rental concessions, alterations and repair of the Premises, lease of less than the entire Premises to any tenant and leasing any or all other portions of the Project before releting the Premises). Landlord shall not be liable, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or collect rent due in respect of such releting.

25. TENANT'S REMEDIES/LIMITATION OF LIABILITY. Landlord shall not be in default hereunder unless Landlord fails to perform any of its obligations hereunder within 30 days after written notice from Tenant specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of 30 days, then after such period of time as is reasonably necessary). All obligations of Landlord hereunder shall be construed as covenants, not conditions; and, except as may be otherwise expressly provided in this Lease, Tenant may not terminate this Lease for breach of Landlord's obligations hereunder. All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter. The term "Landlord" in this Lease shall mean only the owner, for the time being of the Premises, and in the event of the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all obligations of Landlord thereafter accruing, but such obligations shall be binding during the Lease Term upon each new owner for the duration of such owner's ownership. Any liability of Landlord under this Lease shall be limited solely to its interest in the Project, and in no event shall any personal liability be asserted against Landlord in connection with this Lease nor shall any recourse be had to any other property or assets of Landlord.

26. WAIVER OF JURY TRIAL. TENANT AND LANDLORD WAIVE ANY RIGHT TO TRIAL BY JURY OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, BETWEEN LANDLORD AND TENANT ARISING OUT OF THIS LEASE OR ANY OTHER INSTRUMENT, DOCUMENT, OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED HERETO.

27. SUBORDINATION. This Lease and Tenant's interest and rights hereunder are and shall be subject and subordinate at all times to the lien of any first mortgage, now existing or hereafter created on or against the Project or the Premises, and all amendments, restatements, renewals, modifications, consolidations, refinancing, assignments and extensions thereof, without the necessity of any further instrument or act on the part of Tenant. Tenant

agrees, at the election of the holder of any such mortgage, to attorn to any such holder. Tenant agrees upon demand to execute, acknowledge and deliver such instruments, confirming such subordination and such instruments of attornment as shall be requested by any such holder. Tenant hereby appoints Landlord attorney in fact for Tenant irrevocably (such power of attorney being coupled with an interest) to execute, acknowledge and deliver any such instrument and instruments for

and in the name of the Tenant and to cause any such instrument to be recorded. Notwithstanding the foregoing, any such holder may at any time subordinate its mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution, delivery or recording and in that event such holder shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution, delivery and recording of such mortgage and had been assigned to such holder. The term "mortgage" whenever used in this Lease shall be deemed to include deeds of trust, security assignments and any other encumbrances, and any reference to the "holder" of a mortgage shall be deemed to include the beneficiary under a deed of trust.

Tenant shall not be obligated to subordinate the Lease or its interest therein to any future mortgage, deed of trust or ground lease on the Project unless concurrently with such subordination the holder of such mortgage or deed of trust or the ground lessor under such ground lease agrees not to disturb Tenant's possession of the Premises under the terms of the Lease in the event such holder or ground lessor acquires title to the Premises through foreclosure, deed in lieu of foreclosure or otherwise. Tenant shall be solely responsible for any fees or expenses charged by the holder of such mortgage or deed of trust in connection with the granting of such non-disturbance agreement.

28. MECHANIC'S LIENS. Tenant has no express or implied authority to create or place any lien or encumbrance of any kind upon, or in any manner to bind the interest of Landlord or Tenant in, the Premises or to charge the rentals payable hereunder for any claim in favor of any person dealing with Tenant, including those who may furnish materials or perform labor for any construction or repairs. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises and that it will save and hold Landlord harmless from all loss, cost or expense based on or arising out of asserted claims or liens against the leasehold estate or against the interest of Landlord in the Premises or under this Lease. Tenant shall give Landlord immediate written notice of the placing of any lien or encumbrance against the Premises and cause such lien or encumbrance to be discharged within 30 days of the filing or recording thereof; provided, however, Tenant may contest such liens or encumbrances as long as such contest prevents foreclosure of the lien or encumbrance and Tenant causes such lien or encumbrance to be bonded or insured over in a manner satisfactory to Landlord within such 30 day period.

29. ESTOPPEL CERTIFICATES. Tenant agrees, from time to time, within 15 days after request of Landlord, to execute and deliver to Landlord, or Landlord's designee, any estoppel certificate requested by Landlord, stating that this Lease is in full force and effect, the date to which rent has been paid, that Landlord is not in default hereunder (or specifying in detail the nature of Landlord's default), the termination date of this Lease and such other matters pertaining to this Lease as may be requested by Landlord. Tenant's obligation to furnish each estoppel certificate in a timely fashion is a material inducement for Landlord's execution of this Lease. No cure or grace period provided in this Lease shall apply to Tenant's obligations to timely deliver an estoppel certificate. Tenant hereby irrevocably appoints Landlord as its attorney in fact to execute on its behalf and in its name any such estoppel certificate if Tenant fails to execute and deliver the estoppel certificate within 15 days after Landlord's written request

thereof.

30. ENVIRONMENTAL REQUIREMENTS. Except for Hazardous Material contained in products used by Tenant in de minimis quantities for ordinary cleaning and office purposes, Tenant shall not permit or cause any party to bring any Hazardous Material upon the Premises or transport, store, use, generate, manufacture or release any Hazardous Material in or about the Premises without Landlord's prior written consent. Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements and shall remediate in a manner reasonably satisfactory to Landlord any Hazardous Materials released on or from the Project by Tenant, its agents, employees, contractors, subtenants or invitees. Tenant shall complete and certify to disclosure statements as requested by Landlord from time to time relating to Tenant's transportation, storage, use, generation, manufacture or release of Hazardous Materials on the Premises. The term "Environmental Requirements" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders or other similar enactments of any governmental authority or agency regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. The term "Hazardous Materials" means and includes any substance, material, waste, pollutant, or contaminant listed or defined as hazardous or toxic, under any Environmental Requirements, asbestos and petroleum, including crude oil or any fraction thereof, natural gas liquids, liquified natural gas, or synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas). As defined in Environmental Requirements, Tenant is and shall be deemed to be the "operator" of Tenant's "facility" and the "owner" of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all losses (including, without limitation, diminution in value of the Premises or the Project and loss of rental income from the Project), claims, demands, actions, suits, damages (including, without limitation, punitive damages), expenses (including, without limitation, remediation, removal, repair, corrective action, or cleanup expenses), and costs (including, without limitation, actual attorneys' fees, consultant fees or expert fees and including, without limitation, removal or management of any asbestos brought into the property or disturbed in breach of the requirements of this Paragraph 30, regardless of whether such removal or management is required by law) which are brought or recoverable against, or suffered or incurred by Landlord as a result of any release of Hazardous Materials for which Tenant is obligated to remediate as provided above or any other breach of the requirements under this Paragraph 30 by Tenant, its agents, employees, contractors, subtenants, assignees or invitees, regardless of whether Tenant had knowledge of such noncompliance. The obligations of Tenant under this Paragraph 30 shall survive any termination of this Lease.

Landlord shall have access to, and a right to perform inspections and tests of, the Premises to determine Tenant's compliance with Environmental Requirements, its obligations under this Paragraph 30, or the environmental condition of the Premises. Access shall be granted

to Landlord upon Landlord's prior notice to Tenant and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to Tenant's operations. Such inspections and tests shall be conducted at Landlord's expense, unless such inspections or tests reveal that Tenant has not complied with any Environmental Requirement, in which case Tenant shall reimburse Landlord for the reasonable cost of such inspection and tests. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against Tenant.

31. RULES AND REGULATIONS. Tenant shall, at all times during the Lease Term and any extension thereof, comply with all reasonable rules and regulations at any time or from time to time established by Landlord covering use of the Premises and the Project. The current rules and regulations are attached hereto. In the event of any conflict between said rules and regulations and other provisions of this Lease, the other terms and provisions of this Lease shall control. Landlord shall not have any liability or obligation for the breach of any rules or regulations by other tenants in the Project.

32. SECURITY SERVICE. Tenant acknowledges and agrees that, while Landlord may patrol the Project, Landlord is not providing any security services with respect to the Premises and that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises.

33. FORCE MAJEURE. Landlord shall not be held responsible for delays in the performance of its obligations hereunder when caused by strikes, lockouts, labor disputes, acts of God, inability to obtain labor or materials or reasonable substitutes therefor, governmental restrictions, governmental regulations, governmental controls, delay in issuance of permits, enemy or hostile governmental action, civil commotion, fire or other casualty, and other causes beyond the reasonable control of Landlord ("Force Majeure").

34. ENTIRE AGREEMENT. This Lease constitutes the complete agreement of Landlord and Tenant with respect to the subject matter hereof. No representations, inducements, promises or agreements, oral or written, have been made by Landlord or Tenant, or anyone acting on behalf of Landlord or Tenant, which are not contained herein, and any prior agreements, promises, negotiations, or representations are superseded by this Lease. This Lease may not be amended except by an instrument in writing signed by both parties hereto.

35. SEVERABILITY. If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added, as a part of this Lease, a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

36. BROKERS. Tenant represents and warrants that it has dealt with no broker, agent

or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, other than the broker, if any, set forth on the first page of this Lease, and Tenant agrees to indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to this leasing transaction.

37. MISCELLANEOUS. (a) Any payments or charges due from Tenant to Landlord hereunder shall be considered rent for all purposes of this Lease.

(b) If and when included within the term "Tenant," as used in this instrument, there is more than one person, firm or corporation, each shall be jointly and severally liable for the obligations of Tenant.

(c) All notices required or permitted to be given under this Lease shall be in writing and shall be sent by registered or certified mail, return receipt requested, or by a reputable national overnight courier service, postage prepaid, or by hand delivery addressed to the parties at their addresses below, and with a copy sent to Landlord at 14100 EAST 35TH PLACE, AURORA, COLORADO 80011. Either party may by notice given aforesaid change its address for all subsequent notices. Except where otherwise expressly provided to the contrary, notice shall be deemed given upon delivery.

(d) Except as otherwise expressly provided in this Lease or as otherwise required by law, Landlord's consent or approval shall not be unreasonably withheld.

(e) At Landlord's request from time to time Tenant shall furnish Landlord with true and complete copies of its most recent annual and quarterly financial statements prepared by Tenant or Tenant's accountants and any other financial information or summaries that Tenant typically provides to its lenders or shareholders.

(f) Neither this Lease nor a memorandum of lease shall be filed by or on behalf of Tenant or Landlord in any public record. Landlord may prepare and file, and upon request by Landlord Tenant will execute, a memorandum of lease.

(g) The normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments hereto.

(h) The submission by Landlord to Tenant of this Lease shall have no binding force or effect, shall not constitute an option for the leasing of the Premises, nor confer any right or impose any obligations upon either party until execution of this Lease by both parties.

(i) Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

(j) Any amount not paid by Tenant within 5 business days after receipt of notice from Landlord to Tenant that such payment was due; provided, however, that Landlord shall not be obligated to provide written notice of such failure more than 2 times in any consecutive 12-month period, shall bear interest from such due date until paid in full at the lesser of the highest rate permitted by applicable law or 12 percent per year. It is expressly the intent of Landlord and Tenant at all times to comply with applicable law governing the maximum rate or amount of any interest payable on or in connection with this Lease. If applicable law is ever judicially interpreted so as to render usurious any interest called for under this Lease, or contracted for, charged, taken , reserved, or received with respect to this Lease, then it is Landlord's and Tenant's express intent that all excess amounts theretofore collected by Landlord be credited on the applicable obligation (or, if the obligation has been or would thereby be paid in full, refunded to Tenant), and the provisions of this Lease immediately shall be deemed reformed and the amounts thereafter collectible hereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder.

(k) Construction and interpretation of this Lease shall be governed by the laws of the state in which the Project is located, excluding any principles of conflicts of laws.

(l) Time is of the essence as to the performance of Tenant's obligations under this Lease.

(m) All exhibits and addenda attached hereto are hereby incorporated into this Lease and made a part hereof. In the event of any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.

38. LANDLORD'S LIEN/SECURITY INTEREST. Intentionally deleted.

39. LIMITATION OF LIABILITY OF TRUSTEES, SHAREHOLDERS, AND OFFICERS OF PROLOGIS TRUST. Any obligation or liability whatsoever of ProLogis Trust, a Maryland real estate investment trust, which may arise at any time under this Lease or any obligation or liability which may be incurred by it pursuant to any other instrument, transaction, or undertaking contemplated hereby shall not be personally binding upon, nor shall resort for the enforcement thereof be had to the property of, its trustees, directors, shareholders, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort, or otherwise.

40. PURCHASE OF LAND. Landlord and Tenant hereby acknowledge and agree that the effectiveness of this Lease is contingent upon Landlord acquiring the real property required to develop the Premises by October 16, 1998, and Landlord shall use commercially reasonable efforts to effectuate the acquisition of the real property required to develop the Premises by October 16, 1998. In the event the Landlord does not acquire the real property required to develop the Premises by October 16, 1998, then this Lease shall be deemed null and void, and no longer in full force and effect.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the day and year first above written.

TENANT	LANDLORD:
SELECT COMFORT CORPORATION	PROLOGIS DEVELOPMENT SERVICES INCORPORATED
By: /s/ D. J. McAthie	By: /s/ Bud Lyons
Title: Daniel J. McAthie, EVP-CAO-CFR & Secretary	Title: Irving F. (Bud) Lyons III, Co-Chairman
Address: 6105 Trenton Lane N.	Address: 14100 E. 35th Place
Minneapolis, MN 55442-3240	Aurora, CO 80011

RULES AND REGULATIONS

1 The sidewalk, entries, and driveways of the Project shall not be obstructed by Tenant, or its agents, or used by them for any purpose other than ingress and egress to and from the Premises.

2. Tenant shall not place any objects, including antennas, outdoor furniture, etc., in the parking areas, landscaped areas or other areas outside of its Premises, or on the roof of the Project, except for miscellaneous furniture associated with an employee lunch area.

3. Except for seeing-eye dogs, no animals shall be allowed in the offices, halls, or corridors in the Project.

4. Tenant shall not disturb the occupants of the Project or adjoining buildings by the use of any radio or musical instrument or by the making of loud or improper noises.

5. If Tenant desires telegraphic, telephonic or other electric connections in the Premises, Landlord or its agent will direct the electrician as to where and how the wires may be introduced; and, without such direction, no boring or cutting of wires will be permitted. Any such installation or connection shall be made at Tenant's expense.

6. Tenant shall not install or operate any steam or gas engine or boiler, or other mechanical apparatus in the Premises, except as specifically approved in the Lease or by Landlord pursuant to the Lease. The use of oil, gas or inflammable liquids for heating, lighting or any other purpose is expressly prohibited. Explosives or other articles deemed extra hazardous shall not be brought into the Project.

7. Parking any type of recreational vehicles is specifically prohibited on or about the Project. Except for the overnight parking of operative vehicles, no vehicle of any type shall be stored in the parking areas at any time. In the event that a vehicle is disabled, it shall be removed within 48 hours. There shall be no "For Sale" or other advertising signs on or about any parked vehicle. All vehicles shall be parked in the designated parking areas in conformity with all signs and other markings. All parking will be open parking, and no reserved parking, numbering or lettering of individual spaces will be permitted except as specified by Landlord.

8. Tenant shall maintain the Premises free from rodents, insects and other pests.

9. Landlord reserves the right to exclude or expel from the Project any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs or who shall in any manner do any act in violation of the Rules and Regulations of the Project.

10. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Landlord shall not be responsible to Tenant for any loss of property on the Premises, however occurring, or for

any damage done to the effects of Tenant by the janitors or any other employee or person.

11. Tenant shall give Landlord prompt notice of any defects in the water, lawn sprinkler, sewage, gas pipes, electrical lights and fixtures, heating apparatus, or any other service equipment affecting the Premises.

12. Except as otherwise provided for in the Lease, Tenant shall not permit storage outside the Premises, including without limitation, outside storage of trucks and other vehicles, or dumping of waste or refuse or permit any harmful materials to be placed in any drainage system or sanitary system in or about the Premises.

13. All moveable trash receptacles provided by the trash disposal firm for the Premises must be kept in the trash enclosure areas, if any, provided for that purpose.

14. No auction, public or private, will be permitted on the Premises or the Project.

15. No awnings shall be placed over the windows in the Premises except with the prior written consent of Landlord.

16. The Premises shall not be used for lodging, sleeping or cooking or for any immoral or illegal purposes or for any purpose other than that specified in the Lease. No gaming devices shall be operated in the Premises.

17. Tenant shall ascertain from Landlord the maximum amount of electrical current which can safely be used in the Premises, taking into account the capacity of the electrical wiring in the Project and the Premises and the needs of other tenants, and shall not use more than such safe capacity. Landlord's consent to the installation of electric equipment shall not relieve Tenant from the obligation not to use more electricity than such safe capacity.

18. Tenant assumes full responsibility for protecting the Premises from theft, robbery and pilferage.

19. Tenant shall not install or operate on the Premises any machinery or mechanical devices of a nature not directly related to Tenant's ordinary use of the Premises and shall keep all such machinery free of vibration, noise and air waves which may be transmitted beyond the Premises.

ADDENDUM 1

BASE RENT ADJUSTMENTS

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED SEPTEMBER 30, 1998, BETWEEN
PROLOGIS DEVELOPMENT SERVICES INCORPORATED
and
SELECT COMFORT CORPORATION

Subject to the provisions of Addendum 7 to this Lease, Base Rent shall equal the following amounts for the respective periods set forth below:

Period	Monthly Base Rent
Month 1 - 60	$33,969.00
Month 61-120	$39,070.00

ADDENDUM 2

CONSTRUCTION-BUILDING SHELL

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED SEPTEMBER 30, 1998, BETWEEN
PROLOGIS DEVELOPMENT SERVICES INCORPORATED
and
SELECT COMFORT CORPORATION

1. DEFINITIONS . As used in this Addendum 2, the following terms shall have the following respective meanings:

(a) "BUILDING SHELL IMPROVEMENTS" shall mean all items of construction and all improvements specified and listed on Attachment 1 to this Addendum 2 to the Lease, to be more particularly described in the Building Shell Plans provided for in Paragraph 2(b) below.

(b) "LANDLORD'S PROJECT REPRESENTATIVE" shall mean John Hanson, or any replacement designated by Landlord in writing to Tenant pursuant to the notice provisions of the Lease.

(c) "TENANT DELAYS" shall mean and refer to delays in the completion of construction of the Building Shell Improvements caused or contributed to by (i) failure of Tenant to respond to the proposed Building Shell Plans within the time periods provided in Paragraph 2(c) below, and any delays resulting from the implementation of the hereinbelow provided dispute resolution process to resolve any disputes between Landlord and Tenant with respect to such Building Shell Plans, (ii) any request by Tenant for design or specification changes in the Building Shell Improvements during completion of construction thereof that will require extensive or substantial re-design of any structural component or system of the Building Shell Improvements, or (iii) Tenant's material interference with construction (taking into consideration the construction deadlines imposed on Landlord hereunder), including (without limitation) material interference resulting from Tenant's early entry of the Premises pursuant to Paragraph 5 of this Addendum One. In order to make a claim for a Tenant Delay under clauses (ii) or (iii) above, Landlord's Project Representative must give Tenant's Project Representative written notice of such claim of Tenant Delay within twelve (12) hours following the first occurrence of the event(s) giving rise to such claim of delay.

(d) "TENANT'S PROJECT REPRESENTATIVE" shall mean Greg Kliner or any replacement designated by Tenant in writing to Landlord pursuant to the notice provisions of the Lease.

The other defined terms used in the various Paragraphs of this Addendum 2 shall have the respective means therein set forth for such terms. Defined terms used in this

Addendum 2 for which no definition is herein provided shall have the respective meanings provided for such defined terms in the Lease.

2. SCOPE OF THE WORK.

(a) Landlord agrees to furnish or perform, at Landlord's sole cost

and expense, the Building Shell Improvements specified and listed on Attachment 1 to this Addendum 2, to be more particularly described in the Building Shell Plans provided for in Paragraph 2(b) below.

(b) Landlord shall prepare or cause to be prepared and submitted to Tenant's Project Representative, Greg Kliner, at Tenant's offices at 6105 Trenton Lane N., Minneapolis, MN 55442-3240, for Tenant's review, by October 1, 1998, subject to Tenant Delays and events of Force Majeure, complete and final architectural and engineering drawings and specifications (hereinafter collectively referred to as the "Building Shell Plans"), consistent with the description of the Building Shell Improvements set forth on Attachment 1 to this Addendum 2. Tenant agrees that it shall not unreasonably withhold, delay or condition its approval of the proposed Building Shell Plans. The approval process for the Building Shell Plans shall be substantially as set forth below. In no event shall Landlord be obligated to construct any portion of the Building Shell Improvements unless and until Tenant has approved (or is deemed to have approved) Building Shell Plans at 100% completion.

(c) Tenant shall have 10 business days after Tenant's receipt of the proposed Building Shell Plans to review the same and notify Landlord in writing of any comments or requested changes, or to otherwise give its approval or disapproval of such proposed Building Shell Plans. Tenant's right to disapprove the Building Shell Plans shall be limited to material inconsistencies with the specifications set forth on Attachment 1 hereto and items which do not comply with applicable Legal Requirements. If Tenant fails to give written comments to or disapprove the Building Shell Plans within such 10 day period, then Tenant shall be deemed to have approved the Building Shell Plans as submitted. Subject to Landlord's rights under the provisions of Paragraph 2(d) below, Landlord shall have 10 business days following its receipt of Tenant's comments and requested changes to redraw the proposed Building Shell Plans in compliance with Tenant's request and to resubmit the same for Tenant's final review and approval or comment within 5 days of Tenant's receipt of such revised plans. Such process shall be repeated as necessary until final approval or deemed approval by Tenant of the proposed Building Shell Plans at 100% completion has been obtained.

(d) In the event that Landlord disagrees with any of the changes to the proposed Building Shell Plans requested by Tenant, then the Project Representatives of Landlord and Tenant shall consult with respect thereto and each party shall use all reasonable efforts to promptly resolve any disputed elements of such proposed Building Shell Plans. Landlord and Tenant agree that if after consultation with each other and their respective architects they are unable to resolve any disputed items within 10 days of Tenant's written request for changes, then such dispute between Landlord and Tenant with respect to the Building Shell Plans or Tenant's request for changes to the proposed Building Shell Plans shall be resolved pursuant to the provisions of Paragraph 6 below.

(e) In the event that Tenant proposes any changes to the Building Shell Plans (or any portion thereof) after the same have been approved or deemed approved by Landlord, Landlord shall not unreasonably withhold its consent to any such changes, provided the changes do not, in Landlord's reasonable opinion, adversely affect the Building structure, systems, or equipment, or the external appearance of the Building, or the long-term viability of the Building as an office/warehouse project. Any proposed changes to the approved Building Shell Plans shall be reviewed and approved pursuant to the procedures of Subparagraphs (c) and (d) of this Paragraph 2.

(g) As soon as the Building Shell Plans are mutually agreed upon, Landlord shall use diligent efforts to obtain all required permits, authorizations, and licenses from appropriate governmental authorities for construction of the Building Shell Improvements. Tenant shall be solely responsible for obtaining any business or other license or permit required for the conduct of its business at the Premises.

(h) Landlord's construction of the Building Shell Improvements shall be performed in substantial compliance with this Addendum and the Building Shell Plans approved in writing by Tenant (and any changes thereto approved by Landlord as herein provided), and in a good and workmanlike manner, utilizing only new materials. All such work shall be performed by Landlord in compliance with all applicable building codes, regulations and all other Legal Requirements.

3. CONSTRUCTION MILESTONES: DELAY DAMAGES. Landlord shall cause the following construction milestones to be achieved, subject in each case to Tenant Delays and events of Force Majeure:

(a) By March 1, 1999, subject to Tenant Delays and events of Force Majeure (including weather delays but only if such delays exceed 5 days, on a cumulative basis), Landlord shall cause the Building Shell to be "dried-in" so as to enable Tenant to begin installing its racking and manufacturing equipment (as used herein, the term "dried-in" shall mean the exterior walls are erected, the exterior doors are installed, the roof structure and roofing work, including flashing, are complete, overhead electrical and mechanical work in the warehouse is complete, electrical service to the warehouse has been energized, heat to the Premises has been turned on, the high-bay lighting fixtures for the warehouse have been installed and are functional, and the warehouse floor has been cleaned and sealed); otherwise, the scheduled Commencement Date of the Lease shall be extended for such days of delay beyond March 1, 1999 until the date on which the Building Shell is dried-in. Additionally, Landlord shall cause the Building Shell Improvements (but not the Initial Improvements to be constructed by Landlord as provided for in Addendum 3 to this Lease) to be substantially completed, with all mechanical systems of the Building in good working order, except for minor punch list items which do not prevent or restrict in any material way Tenant's use of the entirety of the facility for its manufacturing and distribution use (after Landlord's construction of its Initial Improvements as provided for in Addendum 3 to this Lease) by May 1, 1999, subject to Tenant Delays and events of Force Majeure, as hereinabove provided; otherwise, the scheduled Commencement Date of the Lease shall be extended for each day of delay beyond May 1, 1999 until the date on which the Building Shell Improvements are substantially completed as hereinabove described. As used herein, the term "substantially completed" does not mean or require that minor punch list items for the

Building Shell Improvements have been completed or that seasonal items (such as landscaping) have been completed. The actual date of substantial completion of the Building Shell Improvements shall be the Commencement Date of this Lease, but Landlord shall be obligated to continue to use commercially reasonable efforts, at Landlord's sole cost and expense (which shall not be Operating Expenses) after commencement of the Lease Term to complete such minor punch list and seasonal items.

Notwithstanding anything contained herein to the contrary, subject to Tenant Delays and events of Force Majeure, in the event Landlord fails to cause the Building Shell to be dried-in by March 1, 1999, Landlord shall pay to Tenant as a penalty for such delay Base Rent on a per diem basis for every day that the dried-in construction is delayed, not to exceed 60 days.

(b) As each such construction milestone is achieved, Tenant shall, within five business (5) days after notice from Landlord of its achievement, execute and deliver to Landlord a certificate or statement indicating the date on which such construction milestone has been met, if the same has been met (or assert in writing within such 5-day period that such milestone has not been met). This provision shall have no effect on Landlord's next subsequent construction milestones.

4. PUNCH LIST. Within thirty (30) days following Landlord's notice of substantial completion of the Building Shell Improvements to Tenant, Landlord's Project Representative and Tenant's Project Representative shall perform a joint inspection of the Premises in order to prepare a "punch list" of items to be completed by Landlord in order to achieve final completion of the Building Shell Improvements. In the event of any dispute between Landlord and Tenant with respect to items to be included on the punch list, such disputes shall be subject to resolution pursuant to the provisions of Paragraph 6 of this Addendum 2. Landlord shall complete such "punch list" items within thirty (30) days after agreement on such punch list, subject, however, to seasonal requirements for any landscaping and exterior work, and to any delay in availability of necessary parts or materials (provided Landlord has exercised due diligence in ordering such parts or materials) required for completion of the punch list items.

5. TENANT'S EARLY ENTRY. Subject to applicable ordinances and building codes governing Tenant's right to occupy or perform in the Building Shell

Improvements and subject to the provisions of Paragraph 12 of the Lease, Tenant shall be allowed to install its conveyor and racking systems, machinery, equipment, fixtures, or other property in the Building Shell Improvements (collectively, Tenant's "FIXTURING") immediately following Landlord's delivering the Premises in a dried-in condition per Paragraph 3(a) of this Addendum 2, provided that Tenant does not thereby unreasonably interfere with the completion of construction or occasion any labor dispute as a result of such fixturing, and provided further that Tenant does hereby agree to assume all risk of loss or damage to such improvements, machinery, equipment, fixtures and other property installed by Tenant, its employees, agents or contractors. In addition, Tenant agrees to indemnify, defend, and hold Landlord harmless from any and all liability, loss, or damage arising from any injury to the property of Landlord, its Contractor, its subcontractors, or materialmen, and any death or personal injury to any person or persons arising out of such fixturing, to the extent caused by the negligence or willful misconduct of Tenant, its agents, employees or contractors.

6. DISPUTE RESOLUTION. The parties (through their Project Representatives) shall make good faith efforts to resolve any dispute which may arise under this Addendum 2 in an expedient manner. In the event, however, that any dispute arises, either party may notify the other party of its intent to invoke the dispute resolution procedure herein set forth by delivering written notice to the other party. In such event, if the parties' respective Project Representatives are unable to reach agreement on the subject dispute within five (5) business days after delivery of such notice, then each party shall, within five (5) business days thereafter, designate a representative of its management to meet at a mutually agreed location to resolve the dispute.

7. CONSTRUCTION WARRANTIES. Tenant acknowledges that Landlord has made no representation or warranty as to the suitability of the design of the Building Shell Improvements for the conduct of Tenant's business, and Tenant waives any implied warranty that the Building Shell Improvements are suitable for Tenant's intended purposes. However, and in lieu of any implied warranties, Landlord expressly warrants to Tenant, which warranty shall run for the one (1) year period from and after the actual date of substantial completion of the Building Shell Improvements, that the Building Shell Improvements will be constructed in a good and workmanlike manner and substantially in accordance with the specifications set forth in Attachment 1 to this Addendum 2 and the Building Shell Plans therefor, will be of good quality and new, and will be free of material defects.

The above warranty (i) includes labor and materials but (ii) excludes remedy for damage or defect caused by abuse, modifications not executed by Landlord or its contractors, Tenant's failure to reasonably maintain the Building Shell Improvements in accordance with the provisions of the Lease or Tenant's failure to reasonably operate or use the Building Shell Improvements for their intended purposes, and normal wear and tear under normal usage. If within one (1) year after the date of Substantial Completion of the Building Shell Improvements any of the Building Shell Improvements are found to be not in accordance with the specifications set forth on Attachment 1 to this Addendum 2 and the Building Shell Plans therefor, or are found to be otherwise defective, then Landlord shall correct such defects, and any other damaged materials or finishes that are part of the Building Shell Improvements (but not any of Tenant's fixtures, furniture, furnishings, equipment, machinery, supplies, stock, inventory or other personal property), promptly after receipt of written notice from Tenant. Tenant shall give written notice promptly after discovery of the condition. Landlord's warranties as set forth above are expressly intended to survive substantial completion and completion of the construction of the Building Shell Improvements, acceptance and/or occupancy of the Building Shell Improvements by Tenant, and the payment of Base Rent or other amounts payable under this Lease by Tenant, for the full one (1) year period herein set forth.

Landlord shall assign to Tenant (or have Tenant named as a co-obligee on) all warranties that are assignable (or on which Tenant may be named as a co-obligee) and applicable to those portions of the Building Shell Improvements (including, without limitation, equipment, systems, and the roof) that Tenant is obligated to maintain or repair under this Lease; and, to the extent such warranties are not assignable (or Tenant cannot be named as a co-obligee), Landlord shall use reasonable efforts to enforce such warranties on behalf of and for the benefit of Tenant, if and as applicable.

With respect to any warranties applicable to those portions of the Building Shell Improvements that Landlord is obligated to maintain or repair under this Lease,

Landlord also shall use reasonable efforts to have Tenant named as an additional party entitled to enforce such warranties in the event Landlord fails or refuses to do so.

ADDENDUM 3

CONSTRUCTION-IMPROVEMENTS

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED SEPTEMBER 30, 1998, BETWEEN
PROLOGIS DEVELOPMENT SERVICES INCORPORATED
and
SELECT COMFORT CORPORATION

(a) Landlord agrees to furnish or perform at Landlord's sole cost and expense those items of construction and those improvements (the "INITIAL IMPROVEMENTS") specified below and as more fully described on Attachment 1 to this Addendum 3:

- Warehouse Electrical & Mechanical: 1200 Amp 480/277 volt three phase electrical service with 6 subpanels as per outline specifications, 20 foot candles of warehouse lighting 72" above finished floor prior to installation of racking, (400 watt metal halide fixtures).
- Warehouse Ventilation: Landlord will provide two air changes per hour.
- Dock Equipment: Twenty-six (26) dock doors with bumpers, of which twenty-three (23) dock doors to have hydraulic levelers, seals and swing-arm type dock lights.
- Warehouse Breakroom: 10'x20' employee breakroom located in the northwest corner of the Premises.

Further, Landlord agrees to furnish or perform those items of construction and those improvements (the "INITIAL ALLOWANCE IMPROVEMENTS") specified below and as more fully described on Attachment 1 to this Addendum 3:

- 6,000 square feet of office area: Allowance calculated at $36.00 p.s.f.
- Main Warehouse Restroom: Allowance in a lump sum amount of $45,000
- Monument/Building Signage: Allowance in a lump sum amount of $13,000

Landlord shall pay for the Initial Allowance Improvements up to a maximum amount of $216,000 for the office area; $45,000 for the main warehouse restroom, and $13,000 for the building monument signage, and Tenant shall pay for the cost of the Initial Allowance Improvements in excess of such amount. If the cost of the Initial Allowance Improvements is estimated to exceed such amount, such estimated overage shall be paid by Tenant before Landlord begins construction and a final adjusting payment based upon the actual costs of the Initial Allowance Improvements shall be made when the Initial Allowance Improvements are complete.

Additionally, Landlord shall pay for additional miscellaneous tenant improvements ("Miscellaneous Improvements") up to a maximum amount of $100,000 ("Miscellaneous Allowance"), subject to the provisions of Addendum 6 of this Lease, and in no event shall

Landlord have any obligation to pay for any costs of any additional

miscellaneous tenant improvements in excess of the Miscellaneous Allowance. The Miscellaneous Allowance shall be repaid to Landlord, together with interest at 10.5% per annum, in equal monthly installments over the Lease term; provided, however, in no event shall Landlord be obligated to amortize any portion of such overage in excess of $100,000 and any estimated overage in excess of such amount shall be paid by Tenant to Landlord before Landlord begins constructing any additional miscellaneous tenant improvements. Upon completion the parties shall make an adjusting payment between them.

(b) If Tenant shall desire any changes, Tenant shall so advise Landlord in writing and Landlord shall determine whether such changes can be made in a reasonable and feasible manner. Any and all costs of reviewing any requested changes, and any and all costs of making any changes to the Initial Improvements, the Initial Allowance Improvements, or the Miscellaneous Improvements which Tenant may request and which Landlord may agree to shall be at Tenant's sole cost and expense and shall be paid to Landlord upon demand and before execution of the change order.

(c) Landlord shall proceed with and complete the construction of the Initial Improvements, the Initial Allowance Improvements and the Miscellaneous Improvements, subject to Tenant's compliance with the terms and conditions of Addendum #7 of this Lease. As soon as such improvements have been Substantially Completed, Landlord shall notify Tenant in writing of the date that such improvements were Substantially Completed. Such date, in conjunction with the substantial completion of the Building Shell as defined in Addendum 2 of this Lease, shall be the "COMMENCEMENT DATE," unless the completion of such improvements was delayed due to any act or omission of, or delay caused by, Tenant including, without limitation, Tenant's failure to approve plans, complete submittals or obtain permits within the time periods agreed to by the parties or as reasonably required by Landlord, in which case the Commencement Date shall be the date such improvements would have been completed but for the delays caused by Tenant. Such improvements shall be deemed substantially completed ("SUBSTANTIALLY COMPLETED") when, in the mutual and professional opinion of Landlord's representative and Tenant's representative ("CONSTRUCTION MANAGER"), the Premises are substantially completed except for punch list items which do not prevent in any material way the use of the Premises for the purposes for which they were intended. In the event Tenant, its employees, agents, or contractors cause construction of such improvements to be delayed, the date of Substantial Completion shall be deemed to be the date that, in the professional and reasonable opinion of the Construction Manager, Substantial Completion would have occurred if such delays had not taken place. Without limiting the foregoing, Tenant shall be solely responsible for delays caused by Tenant's request for any changes in the plans, Tenant's request for long lead items or Tenant's interference with the construction of the Initial Improvements, the Initial Allowance Improvements or the Miscellaneous Improvements, and such delays shall not cause a deferral of the Commencement Date beyond what it otherwise would have been. After the Commencement Date Tenant shall, upon demand, execute and deliver to Landlord a letter of acceptance of delivery of the Premises.

(d) The failure of Tenant to take possession of or to occupy the Premises shall not serve to relieve Tenant of obligations arising on the Commencement Date or delay the payment of rent by Tenant. Subject to applicable ordinances and building codes governing

Tenant's right to occupy or perform in the Premises, Tenant shall be allowed to install its tenant improvements, machinery, equipment, fixtures, or other property on the Premises during the final stages of completion of construction provided that Tenant does not thereby substantially interfere with the completion of construction or cause any labor dispute as a result of such installations, and provided further that Tenant does hereby agree to indemnify, defend, and hold Landlord harmless from any loss or damage to such property, and all liability, loss, or damage arising from any injury to the Project or the property of Landlord, its contractors, subcontractors, or materialmen, and any death or personal injury to any person or persons arising out of such installations, whether or not any such loss, damage, liability, death, or personal injury was caused by Landlord's negligence. Any such occupancy or performance in the Premises shall be in accordance with the provisions governing Tenant-Made Alterations and Trade Fixtures in the Lease, and shall be subject to Tenant providing to Landlord satisfactory evidence of insurance for personal injury and property damage related to such

installations and satisfactory payment arrangements with respect to installations permitted hereunder. Delay in putting Tenant in possession of the Premises shall not serve to extend the term of this Lease or to make Landlord liable for any damages arising therefrom, except as otherwise provided for in Paragraph 3(a) of Addendum 2.

(e) Except for incomplete punch list items, Tenant upon the Commencement Date shall have and hold the Premises as the same shall then be without any liability or obligation on the part of Landlord for making any further alterations or improvements of any kind in or about the Premises, except as expressly provided in this Lease.

ADDENDUM 4

ONE RENEWAL OPTION AT MARKET

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED SEPTEMBER 30, 1998, BETWEEN
PROLOGIS DEVELOPMENT SERVICES INCORPORATED
and
SELECT COMFORT CORPORATION

(a) Provided that as of the time of the giving of the Extension Notice and the Commencement Date of the Extension Term, (x) Tenant (or Tenant Affiliate) is the Tenant originally named herein, (y) Tenant (or Tenant Affiliate) actually occupies all of the Premises initially demised under this Lease and any space added to the Premises, and (z) no Event of Default exists or would exist but for the passage of time or the giving of notice, or both; then Tenant shall have the right to extend the Lease Term for an additional term of 5 years (such additional term is hereinafter called the "EXTENSION TERM") commencing on the day following the expiration of the Lease Term (hereinafter referred to as the "COMMENCEMENT DATE OF THE EXTENSION TERM"). Tenant shall give Landlord notice (hereinafter called the "EXTENSION NOTICE") of its election to extend the term of the Lease Term at least 6 months, but not more than 12 months, prior to the scheduled expiration date of the Lease Term.

(b) The Base Rent payable by Tenant to Landlord during the Extension Term shall be the greater of (i) the Base Rent applicable to the last year of the initial Lease term and (ii) the then prevailing market rate for comparable space in the Project and comparable buildings in the vicinity of the Project, taking into account the size of the Lease, the length of the renewal term, market escalations and the credit of Tenant. The Base Rent shall not be reduced by reason of any costs or expenses saved by Landlord by reason of Landlord's not having to find a new tenant for such premises (including, without limitation, brokerage commissions, costs of improvements, rent concessions or lost rental income during any vacancy period). In the event Landlord and Tenant fail to reach an agreement on such rental rate and execute the Amendment (defined below) at least 6 months prior to the expiration of the Lease, then Tenant's exercise of the renewal option shall be deemed withdrawn and the Lease shall terminate on its original expiration date.

(c) The determination of Base Rent does not reduce the Tenant's obligation to pay or reimburse Landlord for Operating Expenses and other reimbursable items as set forth in the Lease, and Tenant shall reimburse and pay Landlord as set forth in the Lease with respect to such Operating Expenses and other items with respect to the Premises during the Extension Term without regard to any cap on such expenses set forth in the Lease.

(d) Except for the Base Rent as determined above, Tenant's occupancy of the Premises during the Extension Term shall be on the same terms and conditions as are in effect immediately prior to the expiration of the initial Lease Term; provided, however, Tenant shall have no further right to any allowances, credits or abatements or any options to expand, contract, renew or extend the Lease.

(e) If Tenant does not give the Extension Notice within the period set

forth in paragraph (a) above, Tenant's right to extend the Lease Term shall automatically terminate. Time is of the essence as to the giving of the Extension Notice.

(f) Landlord shall have no obligation to refurbish or otherwise improve the Premises for the Extension Term. The Premises shall be tendered on the Commencement Date of the Extension Term in "as-is" condition.

(g) If the Lease is extended for the Extension Term, then Landlord shall prepare and Tenant shall execute an amendment to the Lease confirming the extension of the Lease Term and the other provisions applicable thereto (the "Amendment").

(h) If Tenant exercises its right to extend the term of the Lease for the Extension Term pursuant to this Addendum, the term "Lease Term" as used in the Lease, shall be construed to include, when practicable, the Extension Term except as provided in (d) above.

ADDENDUM 5

PURCHASE OPTION

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED SEPTEMBER 30, 1998, BETWEEN
PROLOGIS DEVELOPMENT SERVICES INCORPORATED
and
SELECT COMFORT CORPORATION

Subject to Landlord receiving approval from appropriate governmental authorities on replatting the land parcel as described on the attached Exhibit B, and in accordance with the terms of this Addendum 5, Tenant shall have the right and option (the "Purchase Option") to purchase the Premises. Tenant shall exercise the Purchase Option by delivering written notice ("Purchase Option Notice") to Landlord no later than 60 days after the Commencement Date of this Lease.

1. PURCHASE PRICE. The Purchase Price shall be Four Million Six Hundred Ninety Thousand Nine Hundred Sixty-Four Dollars ($4,690,964) plus any sales commission payable by Landlord, plus the sum of all Change Orders and tenant improvement allowance amounts as defined in Addendum 3 of this Lease, payable in immediately available funds at closing. The intent of the parties is that the Purchase Price shall be absolutely net to Landlord, with the sole exception being that Landlord shall pay its attorneys' fees.

2. CLOSING. The Closing shall be conducted through an escrow established at a title company acceptable to both Landlord and Tenant. All deliveries shall be deposited in escrow and all closing deliveries and disbursements shall be made through the escrow. The Closing shall occur no later than 60 days following the exercise of the Purchase Option.

3. INSPECTION. For a period of 30 days after the date of Tenant's Purchase Option Notice to Landlord, Tenant shall be entitled to inspect the Premises. Tenant shall indemnify and defend Landlord for any claim, damage or liability arising out of Tenant's and its agent's and contractor's inspection. Tenant may revoke its election to exercise the Purchase Option by notice to Landlord within the 30-day period if Tenant is not satisfied with any aspect of the Premises, in which case this Lease shall continue in full force and effect.

4. TITLE. Landlord shall convey to Tenant fee simple title to the Premises by special warranty deed (warranting title by, through, or under Landlord, but not otherwise) subject only to all matters of record and those matters which a correct survey would show but free and clear of any liens or any other exceptions created by, under, or through Landlord. Tenant shall have the absolute right to approve title to the Property, and if title is not satisfactory, Tenant may revoke its election to exercise the Purchase Option by giving notice to Landlord (x) within the inspection period in subparagraph (a) above and, (y) with respect to any title exceptions of which Purchaser is notified after such inspection period but before the Closing, at any time before

the Closing. Landlord shall assign to Tenant all its right, title and interest in and to all contracts,

warranties, permits, approvals, and other intangible property related to the Premises except for any tradename or other similar rights related to the Premises, which Landlord shall retain.

5. PRORATIONS. There shall be no proration of taxes or other expenses.

6. LEASE TERMINATION. The Lease shall be terminated as of the Closing. All rent and other payments due by Tenant to Landlord under the Lease shall be prorated to the date of Closing and shall be deposited into the escrow and disbursed to Landlord at Closing.

7. NO WARRANTY. Landlord makes no, and at closing Tenant shall waive in writing satisfactory to Landlord any, warranty or representation with respect to the Premises (other than title to the Premises as provided above) and shall release Landlord from any right or claims, known or unknown, with respect to the physical or environmental condition of the Premises or the compliance of the Premises with applicable law. Tenant is relying on its own inspection and review of the Premises.

8. RISK OF LOSS. Risk of loss shall remain with Landlord, subject to Tenant's obligations under the Lease, until the Closing. If any condemnation is instituted or threatened against the Premises or the Premises are damaged, either party may terminate the purchase transaction, and the Lease shall remain in full force and effect.

9. TAX-FREE EXCHANGE. Landlord may conduct the sale as a tax-free exchange pursuant to Section 1031 of the Internal Revenue Code. Such exchange shall be conducted through a qualified intermediary, at no cost to Tenant, and without affecting Landlord's obligations to Tenant. Tenant shall not be required to take title to any other property in connection with a Section 1031 exchange.

10. EXERCISE IS IRREVOCABLE. Tenant's exercise of the Purchase Option is irrevocable except as provided herein. Time is of the essence.

11. EXERCISE BY TENANT OR TENANT AFFILIATE ONLY. Only the Tenant originally named herein or a Tenant Affiliate may exercise this Purchase Option. The Purchase Option is not assignable except to a Tenant Affiliate to which the Lease is assigned and shall terminate automatically upon any termination of the Lease other than as a result of default by Landlord. Further, no such right is exercisable if as of the date of exercised of the right or the Closing, the Lease has terminated or an Event of Default or event ("Potential Default") which but for the passage of time or the giving of notice, or both, would constitute an Event of Default has occurred and is continuing.

12. LANDLORD'S RIGHT OF FIRST OFFER. If at any time Tenant desires to sell the Building, then Tenant, before offering the Building to anyone, shall offer to Landlord the right to purchase the Building on the same terms and conditions upon which Tenant intends to offer the Building for sale.

Such offer shall be made by Tenant to Landlord in a written notice (hereinafter called the "First Offer Notice") which offer shall designate the terms which Tenant intends to offer the Building for sale. Landlord may accept the offer set forth in the First Offer

Notice by delivering to Tenant an acceptance (hereinafter called "Landlord's Notice") of such offer within 7 business days after delivery by Tenant of the First Offer Notice to Landlord. Time shall be of the essence with respect to the giving of Landlord's Notice. If Landlord does not accept (or fails to timely accept) an offer made by Tenant pursuant to the provisions of this Addendum with respect to the purchase of the Building, Tenant shall be free to sell the Building to anyone for no less than 95% of the purchase price and

on any other terms offered to Landlord.

Notwithstanding the foregoing, if Tenant desires to sell the Building to anyone on terms which are less than 95% of the purchase price offered to Landlord, then Tenant must re-offer to Landlord the right to purchase the Building on such terms (the "Second Offer Notice"). Tenant shall deliver to Landlord the Second Offer Notice in the same manner as the First Offer Notice. If Landlord does not accept (or fails to timely accept) the re-offer made by Tenant pursuant to the provisions of this Addendum with respect to the purchase of the Building, Landlord shall be deemed to have irrevocably waived all further rights under this Addendum and Tenant shall be under no further obligation to Landlord with respect to the sale of the Building by reason of this Addendum.

ADDENDUM 6

RIGHT OF FIRST OFFER

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED SEPTEMBER 30, 1998, BETWEEN
PROLOGIS DEVELOPMENT SERVICES INCORPORATED
and
SELECT COMFORT CORPORATION

(a) "OFFERED SPACE" shall mean the Building as described on the first page of this Lease subject to Landlord receiving approval from appropriate governmental authorities on replatting the land parcel as described in Addendum 5, and more commonly known as Select Comfort Distribution Center #1.

(b) Provided that as of the date of the giving of Landlord's Notice, (x) Tenant (or Tenant Affiliate) is the Tenant originally named herein, (y) Tenant (or Tenant Affiliate) actually occupies all of the Premises originally demised under this Lease and any premises added to the Premises, and (z) no Event of Default or event which but for the passage of time in the giving of notice, or both, would constitute an Event of Default has occurred and is continuing, if Tenant has not exercised the Purchase Option under the terms and conditions as described in Addendum 5 of this Lease and Landlord desires to sell the Offered Space, then Landlord, before selling such Offered Space to anyone, shall first offer to Tenant the right to purchase the Building on the same terms and conditions upon which Landlord intends to sell the Offered Space to other parties.

(c) Such offer shall be made by Landlord to Tenant in a written notice (hereinafter called the "FIRST OFFER NOTICE") which offer shall designate the space being offered and shall specify the terms which Landlord intends to offer with respect to any such Offered Space. Tenant may accept the offer set forth in the First Offer Notice by delivering to Landlord an unconditional acceptance (hereinafter called "TENANT'S NOTICE") of such offer within 5 business days after delivery by Landlord of the First Offer Notice to Tenant. Time shall be of the essence with respect to the giving of Tenant's Notice. If Tenant does not accept (or fails to timely accept) an offer made by Landlord pursuant to the provisions of this Addendum with respect to the Offered Space designated in the First Offer Notice, Landlord shall be free to sell the Building to anyone for no less than 95% of the purchase price and on any other terms offered to Tenant.

(d) If Tenant at any time declines any Offered Space offered by Landlord, Tenant shall be deemed to have irrevocably waived all further rights under this Addendum.

ADDENDUM 7

CREDIT ENHANCEMENT OPTIONS

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED SEPTEMBER 30, 1998, BETWEEN
PROLOGIS DEVELOPMENT SERVICES INCORPORATED

In the event Tenant's net worth is less than $22,000,000 (including the ability to treat the preferred stock positions from an accounting perspective as an equity item versus a liability) as of March 1, 1999, Tenant shall be granted the following options: (1) Tenant shall provide to Landlord, in addition to the Security Deposit set forth in the Lease, an unconditional, irrevocable Letter of Credit in an amount equal to $513,000, which amount shall be increased by the amount equal to the Miscellaneous Allowance (not to exceed $100,000) pursuant to Addendum 3 of this Lease, and shall be issued from a bank reasonably acceptable to Landlord; provided, however, the Letter of Credit shall not expire until the expiration of the Lease Term and any extensions thereof or Tenant's net worth exceeds $22,000,000 ("Option #1"); or (2) Tenant shall pay to Landlord, in one lump sum payment, the amount equal to the amount of the Letter of Credit, and the Base Rent shall be adjusted as described below ("Option #2).

If Tenant desires to exercise Option #1 as described herein, the Letter of Credit shall be in substantially similar form as attached hereto, shall provide that it may be drawn down upon by Landlord in the event of a default under the Lease at any time Landlord delivers its sight draft to the bank, and shall only be in the amount of Landlord's actual damages sustained in such default. Notwithstanding anything contained herein to the contrary, in the event Landlord terminates the Lease pursuant to Paragraph 24 of the Lease, Landlord shall follow any and all appropriate legal proceedings relating to its remedies, including, without limitation, acceleration of rent, prior to drawing down upon the Letter of Credit. If Landlord sells or conveys the Premises, Tenant shall, at Landlord's request, cooperate in having the Letter of Credit transferred to the purchaser. If the Letter of Credit is ever drawn upon by Landlord in the event of a default pursuant to the terms of the Lease and this Addendum, the default under the Lease shall be deemed cured, and Tenant shall within ten (10) days thereafter cause the Letter of Credit to be restored to its original amount. Further, if Tenant desires to exercise Option #1, the monthly Base Rent shall be reduced by $.0075/sf/mo/NNN during the period of time that the Letter of Credit is in force, but in no event to exceed 12 months.

If Tenant desires to exercise Option #2 as described herein, the monthly Base Rent as set forth in Addendum 1 of this Lease shall be adjusted as follows:

Period	Amount
Months 1-60	$29,232.00 (calculated at $.290/sf/mo/NNN)
Months 61-120	$33,667.20 (calculated at $.334/sf/mo/NNN)

FORM OF LETTER OF CREDIT
[LETTERHEAD OF LETTER OF CREDIT BANK]
[DATE]

ProLogis Development Services Incorporated
_____
_____
Attention: _____

Re: Irrevocable Transferrable Letter of Credit
No. _____

Beneficiary:

By order of our client, _____ (the "APPLICANT"), we hereby establish this Irrevocable Transferrable Letter of Credit No. _____ in your favor for an amount up to but not exceeding

the aggregate sum of _____ and No/100 Dollars ($_____) (as reduced from time to time in accordance with the terms hereof, the "LETTER OF CREDIT AMOUNT"), effective immediately, and expiring on the close of business at our office at the address set forth above one year from the date hereof unless renewed as hereinafter provided.

Funds under this Letter of Credit are available to you on or prior to the expiry date against presentation by you of your (i) sight drafts drawn on us in the form of Annex 1 hereto, indicating this Letter of Credit number and (ii) request in the form of Annex 2 hereto (such sight draft and request, together referred to as a "DRAWING REQUEST"), sight draft(s), completed and signed by one of your officers. Presentation of your Drawing Requests may be made by you to us at the address set forth above or may be made by overnight courier, to the same address. You may present to us one or more Drawing Requests from time to time prior to the expiry date in an aggregate amount not to exceed the Letter of Credit Amount then in effect (it being understood that the honoring by us of each Drawing Request shall reduce the Letter of Credit Amount then in effect by the amount of the Drawing Request so honored).

This Letter of Credit will be automatically renewed for a one-year period upon the expiration date set forth above and upon each anniversary of such date, unless at least sixty (60) days prior to such expiration date, or sixty (60) days prior to any anniversary of such date, we notify both you and the Applicant in writing by certified mail that we elect not to so renew the Letter of Credit.

This Letter of Credit sets forth in full the terms of our undertaking and such undertaking shall not in any way be modified, amended or amplified by reference to any document or instrument referred to herein or in which this Letter of Credit is referred to or to which this Letter of Credit relates, and no such reference shall be deemed to incorporate herein by reference any document or instrument.

All bank charges and commissions incurred in this transaction are for the Applicant's account, except you shall be responsible for all bank charges related to any assignment of this Letter of Credit to your successors and assigns.

This Letter of Credit is assignable by you to your successors and assigns any number of times in its entirety and not in part, but only by delivery to us of a Notice of Assignment in the form of Annex 3 hereto.

We hereby agree with the drawers, endorsers, and bona fide holders of drafts drawn under and in compliance with the terms of this Letter of Credit that such drafts will be duly honored upon presentation to the drawee from our own funds and not the funds of the Applicant and shall be available to such drawers as the case may be, on or before noon, Minnesota time, on the Business Day (defined below) next following the date on which such drafts are received by us. "Business Day" shall mean any day which is not a Saturday, Sunday or day on which we are required or authorized by law to be closed in Minneapolis, Minnesota.

To the extent not inconsistent with the express terms hereof, this Letter of Credit shall be governed by, and construed in accordance with, the terms of the Uniform Customs and Practice for Commercial Documentary Credits (1993 Revision), I.C.C. Publication No. 500 (the "UCP 500") and as to matters not governed by the UCP 500, this Letter of Credit shall be governed by and construed in accordance with the laws of the State of Minnesota.

Very truly yours,

[NAME OF LETTER OF CREDIT BANK]

By: _____

Name: _____

Title: _____

ANNEX 1

SIGHT DRAFT

_____, 199__

For value received, at sight pay to the order of PROLOGIS DEVELOPMENT SERVICES INCORPORATED, the sum of [Amount in words] [Amount in Figures] United States Dollars drawn under [Name of Letter of Credit Bank] Irrevocable Transferrable Letter of Credit No. _____ dated _____, 199_____.

PROLOGIS DEVELOPMENT SERVICES INCORPORATED

By:

Name:

Title:

ANNEX 2

DRAWING REQUEST

_____, 199__

[NAME AND ADDRESS OF LETTER
OF CREDIT BANK]

Re: Irrevocable Letter of Credit No. (the "LETTER OF CREDIT")

The undersigned (the "BENEFICIARY"), hereby certifies to [Name of Letter of Credit Bank] (the "ISSUER") that:

(a) The Beneficiary is making a request for payment in lawful currency of the United States of America under Irrevocable Letter of Credit No._____ (the "Letter of Credit") in the amount of $_____.

(b) The Letter of Credit Amount (as defined in the Letter of Credit) as of the date hereof and prior to payment of the amount demanded in this Drawing Request is $_____. The amount requested by this Drawing Request does not exceed the Letter of Credit Amount.

(c) Demand is made for payment under the Letter of Credit in the amount of Landlord's actual damages as a result of the occurrence and continuation of an Event of Default (as defined in the Lease Agreement).

Please wire transfer the proceeds of the drawing to the following account of the Beneficiary at the financial institution indicated below:

Unless otherwise defined, all capitalized terms used herein have the meanings provided in, or by reference in, the Letter of Credit.

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Drawing Request as of the ___ day of _____, 199__.

PROLOGIS DEVELOPMENT SERVICES INCORPORATED

By:

Name:

Title:

ANNEX 3

NOTICE OF ASSIGNMENT

_____, 199_

[NAME AND ADDRESS OF
LETTER OF CREDIT BANK]

Re: Irrevocable Letter of Credit No. _____

The undersigned (the "BENEFICIARY"), hereby notifies [Name of Letter of Credit Bank] (the "ISSUER") that it has irrevocably assigned the above-referenced Letter of Credit to _____ (the "ASSIGNEE") with an address at _____ effective as of the date the Issuer receives this Notice of Assignment. The Assignee acknowledges and agrees that the Letter of Credit Amount may have been reduced pursuant to the terms thereof, and that the Assignee is bound by any such reduction.

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Notice of Assignment as of this _____ day of _____, 199_.

PROLOGIS DEVELOPMENT SERVICES INCORPORATED

By:

Name:

Title:

Agreed:

[Assignee]

EXHIBIT A - SITE PLAN

To be provided.

EXHIBIT B - REPLATTING OF LAND PARCEL

To be provided.

SELECT COMFORT CORPORATION NONQUALIFIED DEFERRED COMPENSATION PLAN

SELECT COMFORT CORPORATION NONQUALIFIED DEFERRED COMPENSATION PLAN

TABLE OF CONTENTS

SELECT COMFORT CORPORATION NONQUALIFIED DEFERRED COMPENSATION PLAN

Select Comfort Corporation, a Minnesota corporation (the "Employee"), hereby adopts this Select Comfort Corporation Nonqualified Deferred Compensation Plan (the "Plan") for the benefit of a select group of management or highly compensated employees. This plan is an unfunded arrangement and is intended to be exempt from the participation, vesting, funding, and fiduciary requirements

set forth in Title I of the Employee Retirement Income Security Act of 1974, as amended. This Plan is effective October 1, 1998.

ARTICLE I - DEFINITIONS

1.1 ACCOUNT. The bookkeeping account established for each Participant as provided in section 5.1 hereof.

1.2 ADMINISTRATOR. The Employer shall serve as Plan Administrator.

1.3 BOARD. The Board of Directors of the Employer.

1.4 BONUS. Compensation which is designated as such by the Employer and which relates to services performed during an incentive period by an Eligible Employee in addition to his or her Salary, including any pretax elective deferrals from said Bonus to any Employer sponsored plan that includes amounts deferred under a Deferral Election or a qualified cash or deferred arrangement under Code Section 401(k) or cafeteria plan under Code Section 125.

1.5 CODE. The Internal Revenue Code of 1986, as amended.

1.6 COMPENSATION.
The Participant's earned income, including Salary, Bonus and other remuneration from the Employer, but excluding the following: (i) welfare benefits, fringe benefits and

any other noncash remuneration; (ii) amounts realized from the sale, exchange or other disposition of stock acquired under a stock option, a stock grant or any other similar arrangement; and (iii) moving expenses.

1.7 DEFERRALS. The portion of Compensation that a Participant elects to defer in accordance with section 3.1 hereof.

1.8 DEFERRAL ELECTION. The separate written agreement, submitted to the Administrator, by which an Eligible Employee agrees to participate in the Plan and make Deferrals thereto.

1.9 DISABILITY. Any medically determinable physical or mental disorder that renders a Participant incapable of continuing in the employment of the Employer in his or her regular duties of employment and is expected to continue for the remainder of a Participant's life, as determined by the Administrator in its sole discretion.

1.10 EFFECTIVE DATE. October 1, 1998.

1.11 ELIGIBLE EMPLOYEE. An Employee shall be considered an Eligible Employee if such Employee is employed in a level of director or above of the Employer.

1.12 EMPLOYEE. Any person who performs services for the Employer as an employee classified by the Employer at the time the services are performed (without regard to any subsequent, prospective or retroactive classification).

1.13 EMPLOYER CONTRIBUTION. A discretionary contribution made by the Employer to the Trust and that is credited to one or more Participant's Accounts in accordance with the terms of section 3.3 hereof.

1.14 INVESTMENT FUND OR FUNDS. Each investment(s) that serves as a means to measure value increases or decreases with respect to a Participant's Accounts.

1.15 MATCHING CONTRIBUTION. A contribution made by the Employer to the Trust and that is credited to one or more Participant's Accounts in accordance with the terms of section 3.2 hereof.

1.16 PARTICIPANT. An Eligible Employee who is a Participant as provided in ARTICLE II.

1.17 PLAN YEAR. The initial plan year shall be from October 1, 1998 through December 31, 1998. Each subsequent plan year shall commence on January 1 and end on the following December 31.

1.18 RETIREMENT. Retirement means a Participant has retired from the employ of the Employer when or after he or she has reached age 55.

1.19 SALARY. An Eligible Employee's base salary rate or rates in effect at any time during a Plan year, including any pretax elective deferrals from said Salary to any Employer sponsored plan that includes amounts deferred under a Deferral Election or a qualified cash or deferred arrangement under Code Section 401 (k) or cafeteria plan under Code Section 125.

1.20 TRUST. The agreement between the Employer and the Trustee under which the assets of the Plan are held, administered and managed, which shall conform to the terms of Rev. Proc. 92-64.

1.21 TRUSTEE. Investors Bank and Trust, or such other successor that shall become trustee pursuant to the terms of the Select Comfort Corporation Nonqualified Deferred Compensation Plan.

1.22 YEARS OF SERVICE. A Participant's "Years of Service" shall be measured by employment during twelve (12) month periods commencing with the Participant's date of hire and anniversaries thereof.

ARTICLE II - PARTICIPATION

2.1 COMMENCEMENT OF PARTICIPATION. Each Eligible Employee shall become a Participant at the earlier of the date on which his or her Deferral Election first becomes effective or the date on which an Employer Contribution is first credited to his or her Account.

2.2 LOSS OF ELIGIBLE EMPLOYEE STATUS.

(a) A participant who is no longer an Eligible Employee shall not be permitted to submit a Deferral Election and all Deferrals for such Participant shall cease as of the end of the Plan Year in which such Participant is determined to no longer be an Eligible Employee.

(b) Amounts credited to the Account of a Participant described in subsection (a) shall continue to be held, pursuant to the terms of the Plan and shall be distributed as provided in ARTICLE VI.

ARTICLE III - CONTRIBUTIONS

3.1 DEFERRALS.

(a) The Employer shall credit to the Account of a Participant an amount equal to the amount designated in the Participant's Deferral Election for that Plan Year. Such amounts shall not be made available to such Participant, except as provided in ARTICLE VI, and shall reduce such Participant's Compensation from the Employer in accordance with the provisions of the applicable Deferral Election; provided, however, that all such amounts shall be subject to the rights of the general creditors of the Employer as provided in ARTICLE VIII.

(b) Each Eligible Employee shall deliver a Deferral Election to the Employer before any Deferrals can become effective. Such Deferral Election shall be void with respect to any Deferral unless submitted before the beginning of the calendar year during which the amount to be deferred will be earned; provided, however, that in the year in which the Plan is first adopted or an Employee is first eligible to participate, such Deferral Election shall be filed within thirty (30) days of the date on which the Plan is adopted or the date on which an Employee is first eligible to participate,

respectively, with respect to Compensation earned during the remainder of the calendar year.

(c) The Deferral Election shall, subject to the limitation set forth in section 3.1 hereof, designate the amount of Compensation deferred by each Participant, the subaccount, if any, as set forth in subsection (e), below, the beneficiary or beneficiaries of the Participant and such other items as the Administrator may prescribe. Such designations shall remain effective unless amended as provided in subsection (d), below.

(d) A Participant may amend his or her Deferral Election from time to time; provided, however, that any amendment to the amount of a Participant's Deferrals shall comply with the provisions of subsection (b), above.

(e) A Participant may direct his or her Deferral to be credited to one or more subaccount as may be established, as provided in ARTICLE V, by the Participant at the time of the Deferral Election.

(f) The minimum amount that may be deferred each Plan Year is the greater of three hundred dollars ($300) or two percent (2%) of the Participant's Compensation. If total deferrals for a Plan Year fail to meet the minimum, such deferrals will be returned to Participant as if no deferral election had been made for that Plan Year.

(g) The maximum amount that may be deferred for the initial Plan Year is fifty percent (50%) of the Participant's Salary and one hundred percent (100%) of the Participant's Bonus, net of applicable taxes. Each Plan Year thereafter, the maximum is twenty-five percent (25%) of the Participant's Salary and one hundred percent (100%) of the Participant's Bonus, net of applicable taxes.

3.2 MATCHING CONTRIBUTIONS. The Employer reserves the right to credit to the Account of each Participant who makes Deferrals a Matching Contribution in such amount and in such manner as may be determined by the Employer.

3.3 EMPLOYER CONTRIBUTIONS. The Employer reserves the right to make discretionary contributions to Participants' Accounts in such amount and in such manner as may be determined by the Employer.

3.4 TIME OF CONTRIBUTIONS.

(a) Deferrals and Matching Contributions shall be transferred to the Trust as soon as administratively feasible following each payroll period. The Employer shall also transmit at that time any necessary instructions regarding the allocation of such amounts among the Accounts of Participants.

(b) Employer Contributions shall be transferred to the Trust at such time as the Employer shall determine. The Employer shall also transmit at that time any necessary instructions regarding the allocation of such amounts among the Accounts of Participants.

3.5 FORM OF CONTRIBUTIONS. All Deferrals, Matching Contributions and Employer Contributions to the Trust shall be made in the form of cash or cash equivalents of US currency.

ARTICLE IV - VESTING

4.1 VESTING OF DEFERRALS. A Participant shall have a vested right to the portion of his or her Account attributable to Deferrals and any earnings on the investment of such Deferrals.

4.2 VESTING OF MATCHING CONTRIBUTIONS. Except as otherwise provided herein, a Participant shall have a vested right to the portion of his or her Account attributable to Matching Contributions in accordance with the

following schedule:

Completed Years of Service	Vested Percentage
0 but fewer than 2	0%
2 but fewer than 3	20%
3 but fewer than 4	40%
4 but fewer than 5	60%
5 but fewer than 6	80%
6 years or more	100%

4.3 VESTING OF EMPLOYER CONTRIBUTIONS. Except as otherwise provided herein, a Participant shall have a vested right to the portion of his or her Account attributable to Employer Contributions in accordance with the following schedule:

Completed Years of Service	Vested Percentage
0 but fewer than 2	0%
2 but fewer than 3	20%
3 but fewer than 4	40%
4 but fewer than 5	60%
5 but fewer than 6	80%
6 years or more	100%

4.4 VESTING IN EVENT OF RETIREMENT, DISABILITY, OR DEATH.

(a) Provided the Participant has a minimum of five (5) Years of Service with the Employer, a Participant who retires from the employ of the Employer after attaining age 59 1/2 shall be fully vested in the amounts credited to his or her account.

(b) A Participant who has a termination of employment due to Disability shall be fully vested in the amounts credited to his or her Account.

(c) A Participant who has a termination of employment due to death shall be fully vested in the amounts credited to his or her Account.

4.5 AMOUNTS NOT VESTED. Any amounts credited to a Participant's Account that are not vested at the time of his or her termination of employment with the Employer shall be forfeited.

ARTICLE V - ACCOUNTS

5.1 ACCOUNTS. The Administrator shall establish and maintain a bookkeeping account in the name of each Participant. The Administrator shall also establish subaccounts, as provided in subsection (a), (b), and/or (c), below, as elected by the Participant pursuant to ARTICLE III.

(a) A Retirement Account shall be established for each Participant. His or her Retirement Account shall be credited with Deferrals (as specified

in the Participant's Deferral Election), any Matching Contributions allocable thereto, any Employer Contributions, and the Participant's allocable share of any earnings or losses on the foregoing. Each Participant's Account shall be reduced by any distributions made plus any federal and state tax withholding and any social security withholding tax as may be required by law.

(b) A Participant may elect to establish one or more Education Accounts in the name of a "Student" at the time of his or her Deferral. For purposes of this ARTICLE, Student shall mean a child, grandchild, niece or nephew of the Participant that has not yet attained the age of fourteen (14) at the time the account is initially established. A Participant may have a maximum of five (5) subaccount at any time. Each Participant's Education Account shall be credited with Deferrals (as specified in the Participant's Deferral Election), any Matching Contributions allocable thereto, any Employer Contributions and the Participant's allocable share of any earnings or losses on the foregoing. Each Participant's Account shall be reduced by any distributions made plus any federal and state tax withholding and any social security withholding tax as may be required by law.

(c) A Participant may elect to establish one or more Fixed Period Accounts by designating a year of payout at the time the account is initially established. The minimum initial deferral period for each subaccount shall be five (5) years. A Participant may have a maximum of five (5) subaccounts at any time. Each Participant's Fixed Period Account shall be credited with Deferrals (as specified in the Participant's Deferral Election), any Matching Contributions allocable thereto, any Employer Contributions and the Participant's allocable share of any earnings or losses on the foregoing. Each Participant's Account shall be reduced by any distributions made plus any federal and state tax withholding and any social security withholding tax as may be required by law.

5.2 INVESTMENTS, GAINS AND LOSSES.

(a) Trust assets shall be invested in the discretion of the Trustee. The Trustee may consider any investment suggestions received by the Employer or by a Participant with respect to his or her own Account.

(b) The Administrator shall adjust the amounts credited to each Participant's Account to reflect Deferrals, Matching Contributions, Employer Contributions, investment experience, distributions and any other appropriate adjustments. Such adjustments shall be made as frequently as is administratively feasible.

(c) A Participant may direct that his or her Retirement Account, Education Account and or Fixed Period Account established pursuant to section 5.1 may be valued as if they were invested in one or more Investment Funds up to a maximum of ten (10) funds in multiples of one percent (1%) of the balance in an Account. A Participant may change his or her selection of Investment Funds no more than six (6) times each Plan Year. An election shall be effective as soon as administratively feasible following the date of the change as indicated in writing by the Participant.

5.3 FORFEITURES. Any forfeitures from a Participant's Account shall continue to be held in the Trust, shall be separately invested and shall be used to reduce succeeding Matching Contributions, Employer Contributions and/or Employee Contributions until such forfeitures have been entirely so applied. If no further Matching Contributions, Employer Contributions or Employee Contributions will be made, then such forfeitures shall be returned to the Employer.

ARTICLE VI - DISTRIBUTIONS

6.1 DISTRIBUTION ELECTION. Each Participant shall designate on his or her initial Deferral Election the form and timing of his or her distribution by

indicating the type of account as described under section 5.1, and by designating the manner in which payments shall be made from the choices available under section 6.2 hereof. Such designation shall be irrevocable and shall apply to all amounts distributed from such Participant's Account.

6.2 PAYMENT OPTIONS.

(a) Retirement Account payout shall be payable in one of the following forms: (i) in a lump-sum payment; or (ii) in annual installments over a period of up to ten (10) years (as elected by Participant on his or her Deferral Election). Retirement Account payments shall commence as soon as administratively feasible immediately after the Participant's Retirement.

(b) Education Account payout shall be paid in four annual installments on January 1 (or as soon as administratively feasible) of the calendar year in which the Student reaches age eighteen (18) and the three anniversaries thereof in the following amounts:

Year 1	25% of the vested account balance
Year 2	33% of the vested account balance
Year 3	50% of the vested account balance
Year 4	100% of the vested account balance

(c) Fixed Period Account payouts shall be paid in one lump sum payment on January 1 (or as soon as administratively feasible) of the calendar year selected by the participant on his or her Deferral Election.

(d) If a Participant has either an Education Account(s) or Fixed Period Account(s) at the time of his or her Retirement, said Accounts shall be transferred to his or her Retirement Account and paid out according to subsection (a) above.

6.3 COMMENCEMENT OF PAYMENT UPON DEATH, DISABILITY OR TERMINATION.

(a) Upon the death of a Participant, all amounts credited to his or her Account(s) shall be paid, as soon as administratively feasible, to his or her beneficiary or beneficiaries, as determined under ARTICLE VII hereof, in a lump sum.

(b) Upon the Disability of a Participant, all amounts credited to his or her Account(s) shall be paid to the Participant, (i) in a lump-sum payment; or (ii) in annual installments over a period of up to ten (10) years (as elected by Participant on his or her initial Deferral Election form) as soon as administratively feasible after the Participant is determined to have experienced a disability.

(c) Upon a Participant's termination of employment with the Company and all of its affiliates, all amounts credited to his or her Account(s) shall be paid to the Participant in a lump-sum payment, as soon as administratively feasible after his or her termination of employment.

6.4 MINIMUM DISTRIBUTION. Notwithstanding any provision to the contrary, if the balance of a Participant's Account at the time of a termination due to Retirement or Disability is less than $10,000, then the Participant shall be paid his or her benefits as a single lump sum as soon as administratively feasible following said termination.

6.5 FINANCIAL HARDSHIP. The Administrator may permit an early distribution of part or all of any deferred amounts; provided, however, that such distribution shall be made only if the Administrator, in its sole discretion, determines that the Participant has experienced an unforeseen emergency that is caused by an event beyond the control of the Participant and that would result in severe financial hardship to the Participant if early distribution were not permitted. Any distribution pursuant to this subsection is limited to the amount necessary to meet the hardship.

ARTICLE VII - BENEFICIARIES

7.1 BENEFICIARIES. Each Participant may from time to time designate one or more persons (who may be any one or more members of such person's family or other persons, administrators, trusts, foundations or other entities) as his or her beneficiary under the Plan. Such designation shall be made on a form prescribed by the Administrator. Each Participant may at any time and from time to time, change any previous beneficiary designation, without notice to or consent of any previously designated beneficiary, by amending his or her previous designation on a form prescribed by the Administrator. If the beneficiary does not survive the Participant (or is otherwise unavailable to receive payment) or if no beneficiary is validly designated, then the amounts payable under this Plan shall be paid to the Participant's surviving spouse, if any, and, if none, to his or her surviving issue per stirpes, if any, and, if none, to his or her estate and such person shall be deemed to be a beneficiary hereunder. (For purposes of this ARTICLE, a per stirpes distribution to surviving issue means a distribution to such issue as representatives of the branches of the descendants of such Participant; equal shares are allotted for each living child and for the descendants as a group of each deceased child of the deceased Participant). If more than one person is the beneficiary of a deceased Participant, each such person shall receive a pro rata share of any death benefit payable unless otherwise designated on the applicable form. If a beneficiary who is receiving benefits dies, all benefits that were payable to such beneficiary shall then be payable to the estate of that beneficiary.

7.2 LOST BENEFICIARY.

(a) All Participants and beneficiaries shall have the obligation to keep the Administrator informed of their current address until such time as all benefits due have been paid.

(b) If a Participant or beneficiary cannot be located by the Administrator exercising due diligence, then, in its sole discretion, the Administrator may presume that the Participant or beneficiary is deceased for purposes of the Plan and all unpaid amounts (net of due diligence expenses) owed to the Participant or beneficiary shall be paid accordingly or, if a beneficiary cannot be so located, then such amounts may be forfeited. Any such presumption of death shall be final, conclusive and binding on all parties.

ARTICLE VII - FUNDING

8.1 PROHIBITION AGAINST FUNDING. Should any investment be acquired in connection with the liabilities assumed under this Plan, it is expressly understood and agreed that the Participants and beneficiaries shall not have any right with respect to, or claim against, such assets nor shall any such purchase be construed to create a trust of any kind or a fiduciary relationship between the Employer and the Participants, their beneficiaries or any other person. Any such assets shall be and remain a part of the general, unpledged, unrestricted assets of the Employer, subject to the claims of its general creditors. It is the express intention of the parties hereto that this arrangement shall be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. Each Participant and beneficiary shall be required to look to the provisions of this Plan and to the Employer itself for enforcement of any and all benefits due under this Plan, and to the extent any such person acquires a right to receive payment under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Employer. The Employer or the Trust shall be designated the owner and beneficiary of any investment acquired in connection with its obligation under this Plan.

8.2 DEPOSITS IN TRUST. Notwithstanding paragraph 8.1, or any other provision of this Plan to the contrary, the Employer may deposit into the Trust any amounts it deems appropriate to pay the benefits under this Plan. The amounts so deposited may include all contributions made pursuant to a Deferral Election by a Participant any Employer Contributions and any

Matching Contributions.

8.3 WITHHOLDING OF EMPLOYEE CONTRIBUTIONS. The Administrator is authorized to make any and all necessary arrangements with the Employer in order to withhold the Participant's Deferrals under section 3.1 hereof from his or her Compensation. The Administrator shall determine the amount and timing of such withholding.

ARTICLE IX - CLAIMS ADMINISTRATION

9.1 GENERAL. In the event that a Participant or his or her beneficiary does not receive any Plan benefit that is claimed, such Participant or beneficiary shall be entitled to consideration and review as provided in this ARTICLE. Such consideration and review shall be conducted in a manner designed to comply with section 503 of the Employee Retirement Income Security Act of 1974, as amended.

9.2 CLAIM REVIEW. Upon receipt of any written claim for benefits, the Administrator shall be notified and shall give due consideration to the claim presented. If the claim is denied to any extent by the Administrator, the Administrator shall furnish the claimant with a written notice setting forth (in a manner calculated to be understood by the claimant):

(a) the specific reason or reasons for denial of the claim;

(b) a specific reference to the Plan provisions on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the provisions of this ARTICLE.

9.3 RIGHT OF APPEAL. A claimant who has a claim denied under section 9.2 may appeal to the Administrator for reconsideration of that claim. A request for reconsideration under this section must be filed by written notice within sixty (60) days after receipt by the claimant of the notice of denial under section 9.2.

9.4 REVIEW OF APPEAL. Upon receipt of an appeal the Administrator shall promptly take action to give due consideration to the appeal. Such consideration may include a hearing of the parties involved, if the Administrator feels such a hearing is necessary. In preparing for this appeal the claimant shall be given the right to review pertinent documents and the right to submit in writing a statement of issues and comments. After consideration of the merits of the appeal the Administrator shall issue a written decision which shall be binding on all parties. The decision shall be written in a

manner calculated to be understood by the claimant and shall specifically state its reasons and pertinent Plan provisions on which it relies. The Administrator's decision shall be issued within sixty (60) days after the appeal is filed, except that if a hearing is held the decision may be issued within one hundred twenty (120) days after the appeal is filed.

9.5 DESIGNATION. The Administrator may designate one or more of its members or any other person of its choosing to make any determination otherwise required under this ARTICLE.

ARTICLE X - GENERAL PROVISIONS

10.1 ADMINISTRATOR.

(a) The Administrator has the discretionary power and authority to

limit the amount of compensation that may be deferred; to deposit amounts into trust in accordance with section 8.2 hereof; to interpret and apply the Plan, and to determine all questions arising in the administration, interpretation and application of the Plan; to employ actuaries, accountants, counsel, and other persons it deems necessary in connection with the administration of the Plan; to request any information from the Employer it deems necessary to determine whether the Employer would be considered insolvent or subject to a proceeding in bankruptcy; and to take all other necessary and proper actions to fulfill its duties as Administrator.

(b) The Administrator shall not be liable for any actions by it hereunder, unless due to its own negligence, willful misconduct or lack of good faith.

(c) The Administrator shall be indemnified and saved harmless by the Employer from and against all personal liability to which it may be subject by reason of any act done or omitted to be done in its official capacity as Administrator in good faith in the administration of the Plan and Trust, including all expenses reasonably incurred in its defense in the event the Employer fails to provide such defense upon the request of the Administrator. The Administrator is relieved of all responsibility in connection with its duties hereunder to the fullest extent permitted by law, short of breach of duty to the beneficiaries.

10.2 NO ASSIGNMENT. Benefits or payments under this Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Participant or the Participant's beneficiary, whether voluntary or involuntary, and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish the same shall not be valid, nor shall any such benefit or payment be in any way liable for or subject to the debts, contracts, liabilities, engagement or torts of any Participant or beneficiary, or any other person entitled to such benefit or payment pursuant to the terms of this Plan, except to such extent as may be required by law. If any Participant or beneficiary or any other person entitled to a benefit or payment pursuant to the terms of

this Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish any benefit or payment under this Plan, in whole or in part, or if any attempt is made to subject any such benefit or payment, in whole or in part, to the debts, contracts, liabilities, engagements or torts of the Participant or beneficiary or any other person entitled to any such benefit or payment pursuant to the terms of this Plan, then such benefit or payment, in the discretion of the Administrator shall cease and terminate with respect to such Participant or beneficiary, or any other such person.

10.3 NO EMPLOYMENT RIGHTS. Participation in this Plan shall not be construed to confer upon any Participant the legal right to be retained in the employ of the Employer, or give a Participant or beneficiary, or any other person, any right to any payment whatsoever, except to the extent of the benefits provided for hereunder. Each Participant shall remain subject to discharge to the same extent as if this Plan had never been adopted.

10.4 INCOMPETENCE. If the Administrator determines that any person to whom a benefit is payable under this Plan is incompetent by reason of physical or mental disability, the Administrator shall have the power to cause the payments becoming due to such person to be made to another for his or her benefit without responsibility of the Administrator or the Employer to see to the application of such payments. Any payment made pursuant to such power shall, as to such payment, operate as a complete discharge of the Employer, the Administrator and the Trustee.

10.5 IDENTITY. If, at any time, any doubt exists as to the identity of any person entitled to any payment hereunder or the amount or time of such payment, the Administrator shall be entitled to hold such sum until such identity or amount or time is determined or until an order of a court of competent jurisdiction is obtained. The Administrator shall also be entitled to pay such sum into court in accordance with the appropriate rules of law. Any expenses incurred by the Employer, Administrator, and Trust incident to such proceeding or litigation shall be charged against the Account of the

affected Participant.

10.6 OTHER BENEFITS. The benefits of each Participant or beneficiary hereunder shall be in addition to any benefits paid or payable to or on account of the Participant or beneficiary under any other pension, disability, annuity or retirement plan or policy whatsoever.

10.7 NO LIABILITY. No liability shall attach to or be incurred by any manager of the Employer, Trustee or any Administrator under or by reason of the terms, conditions and provisions contained in this Plan, or for the acts or decisions taken or made thereunder or in connection therewith; and as a condition precedent to the establishment of this Plan or the receipt of benefits thereunder, or both, such liability, if any, is expressly waived and released by each Participant and by any and all persons claiming under or through any Participant or any other person. Such waiver and release shall be conclusively evidenced by any act or participation in or the acceptance of benefits or the making of any election under this Plan.

10.8 EXPENSES. All expenses incurred in the administration of the Plan, whether incurred by the Employer or the Plan, shall be paid by the Employer.

10.9 INSOLVENCY. Should the Employer be considered insolvent (as defined by the Trust), the Employer, through its Board and chief executive officer, shall give immediate written notice of such to the Administrator of the Plan and the Trustee. Upon receipt of such notice, the Administrator or Trustee shall cease to make any payments to Participants who were Employees of the Employer or their beneficiaries and shall hold any and all assets attributable to the Employer for the benefit of the general creditors of the Employer.

10.10 AMENDMENT AND TERMINATION.

(a) Except as otherwise provided in this section, the Employer shall have the sole authority to modify, amend or terminate this Plan; provided, however, that any modification or termination of this Plan shall not reduce, without the consent of a Participant, a Participant's right to any amounts already credited to his or her Account, or lengthen the time period for a payout from an established Account, on the day before the effective date of such modification or termination. Following such termination, payment of such credited amounts may be made in a single sum payment if the Employer so designates. Any such decision to pay in a single sum shall apply to all Participants.

(b) A Participant shall have a vested right to his or her Account in the event of the termination of the Plan pursuant to section (a), above.

(c) Any funds remaining in the Trust after termination of the Plan and satisfaction of all liabilities to Participants and others shall be returned to the Employer.

10.11 EMPLOYER DETERMINATIONS. Any determinations, actions or decisions of the Employer (including but not limited to, Plan amendments and Plan termination) shall be made by the Board in accordance with its established procedures or by such other individuals, groups or organizations that have been properly delegated by the Board to make such determination or decision.

10.12 CONSTRUCTION. All questions of interpretation, construction or application arising under or concerning the terms of this Plan shall be decided by the Administrator, in its sole and final discretion, whose decision shall be final, binding and conclusive upon all persons.

10.13 GOVERNING LAW. This Plan shall be governed by, construed and administered in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, and any other applicable federal law, provided, however, that to the extent not preempted by federal law this Plan shall be governed by, construed and administered under the laws

of the State of Minnesota, other than its laws respecting choice of law.

10.14 SEVERABILITY. If any provision of this Plan is held invalid or unenforceable, its invalidity or unenforceability shall not affect any other provision of this Plan and this Plan shall be construed and enforced as if such provision had not been included therein. If the inclusion of any Employee (or Employees) as a Participant under this Plan would cause the Plan to fail to comply with the requirements of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended, then the Plan shall be severed with respect to such Employee or Employees, who shall be considered to be participating in a separate arrangement.

10.15 HEADINGS. The ARTICLE headings contained herein are inserted only as a matter of convenience and for reference and in no way define, limit, enlarge or describe the scope or intent of this Plan nor in any way shall they affect this Plan or the construction of any provision thereof.

10.16 TERMS. Capitalized terms shall have meanings as defined herein. Singular nouns shall be read as plural, masculine pronouns shall be read as feminine, and vice versa, as appropriate.

IN WITNESS WHEREOF, Select Comfort Corporation has caused this instrument to be executed by its duly authorized officer, effective as of this 15th day of October, 1998.

Select Comfort Corporation

By: Thomas F. Masloski Jr.

Title: Director of Compensation and Benefits

ATTEST:
By:_____

Title:_____

SCHEDULE A

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT AND REPORT ON FINANCIAL STATEMENT SCHEDULE

The Board of Directors
Select Comfort Corporation:

The audits referred to in our report dated October 23, 1998, included the related consolidated financial statement schedule as of December 28, 1996, January 3, 1998, and October 3, 1998, and for each of the years in the three-year period ended January 3, 1998, and the nine-month period ended October 3, 1998, included in the registration statement. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to the use of our reports included herein and to the reference to our firm under the headings "Selected Consolidated Financial Data" and "Experts" in the prospectus.

/s/ KPMG Peat Marwick LLP

Minneapolis, Minnesota
October 28, 1998

EXHIBIT 23.3

CONSENT OF HOULIHAN VALUATION ADVISORS

We consent to the reference to our firm under the caption "Experts" in the Registration Statement (Form S-1; Commission File No. 333-62793) and related Prospectus of Select Comfort Corporation dated October 29, 1998, and in any amended Prospectus or Registration Statement filed under the Securities Act of 1933.

HOULIHAN VALUATION ADVISORS

/s/ Houlihan Valuation Advisors

Minneapolis, Minnesota
October 28, 1998

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