

SLEEP NUMBER CORPORATION
Board and Senior Management Stock Ownership Guidelines
September 2018

Sleep Number Corporation believes strongly in close alignment of the Board and Senior Management with the interests of our shareholders. Compensation and benefit programs are designed to be closely linked with business performance and to promote long-term equity ownership. While the number of shares of the Company's common stock owned by each director and each executive is ultimately a personal decision, the Board believes that it is useful to provide stock ownership objectives and guidelines to help guide these individual decisions.

For purposes of these guidelines, stock ownership includes the fair market value of (1) all shares of common stock owned outright including deferred stock units, (2) unvested restricted stock and restricted stock units that are subject only to time-vesting, net of an assumed effective tax rate of 40%, and (3) vested stock options, net of an assumed effective tax rate of 40%. The fair market value of stock options shall mean the then-current market price less the exercise price. The unearned portion of outstanding performance shares, whether in the form of restricted stock or restricted stock units, will not count toward stock ownership.

- *Executive Officer Ownership Guidelines.* The Chief Executive Officer is expected to achieve and maintain stock ownership equal to five times the Chief Executive Officer's base salary and each of the other executive officers is expected to achieve and maintain stock ownership equal to three times the executive officer's base salary. The executive officers are required to retain at least 50% of net shares after taxes from any grant until such time as the guideline is met.
- *Board Ownership Guidelines.* Within five years of joining the company's Board of Directors, each director is expected to achieve and maintain stock ownership equal to five times the director's annual cash retainer. Any director who has not achieved the foregoing ownership objective by the required time period will not be permitted to sell any shares except to the extent required to pay the exercise price, transaction costs and taxes applicable to the exercise of stock options or the vesting of restricted shares. Exceptions to these restrictions on sale of shares may be granted by the Board in its sole discretion for good cause shown by any director.