SLEEP NUMBER CORPORATION

CORPORATE GOVERNANCE PRINCIPLES

(Revised – 2020)

Sleep Number Corporation (the "Company") is committed to sound principles of corporate governance. These principles provide an important framework within which the Board of Directors (the "Board") and management can pursue the strategic objectives of the Company and ensure its long-term vitality for the benefit of all shareholders. These principles will evolve and be supplemented as appropriate to ensure continued alignment with good governance practices. The unchanging, fundamental premise of these principles is the independence of the Board and its overarching responsibility to the Company's shareholders.

BOARD AND COMMITTEE MEMBERSHIP

- <u>Independence</u>. A substantial majority of the members of the Board should be independent, non-employee Directors. It is the responsibility of the Board to establish the standards for independence. The Board will at a minimum, however, conform with the independence requirements applicable to Nasdaq National Market issuers. The Board will determine whether a Director or a candidate for Director is independent based on all relevant information and a recommendation of the Corporate Governance and Nominating Committee.

  All Committees of the Board shall be composed entirely of independent Directors. The Board will establish and set forth in each Committee charter the applicable standard of independence for Committee membership based on best practices in corporate governance as well as any applicable legal or stock market requirements.

- <u>Separation of Chair and CEO Positions</u>. Since February 2008, the Board has determined to separate the positions of Chair of the Board and CEO, and for the position of Chair of the Board to be held by a non-executive, independent member of the Board. The Board retains the right to review this determination and to either continue to maintain these positions as separated positions or to combine the positions, as the Board determines to be in the best interests of the Company at the time. During any period in which the positions of Chair of the Board and CEO are combined, the Board will appoint a Lead Director from among the independent members of the Board, who will have the responsibilities described below.

- <u>Lead Director – Role and Responsibilities</u>. In addition to the regular duties and responsibilities applicable to all Board members, the Lead Director is responsible to:

  - Provide guidance to the Chair regarding the Board meeting schedule, seeking to ensure that independent Directors can perform their duties responsibly and efficiently while not interfering with the flow of Company operations;

- Provide guidance to the Chair regarding the agendas for Board and Committee meetings;

- In consultation with the Corporate Governance and Nominating Committee, advise the Chair regarding the composition of the various Board Committees, as well as the selection of Committee chairs;

- Advise the Chair as to the quality, quantity and timeliness of the flow of information from Company management that is necessary for the independent Directors to effectively and responsibly perform their duties; although Company management is responsible for the preparation of materials for the Board, the Lead Director may specifically request the inclusion of certain material;

- Coordinate, develop the agenda for and moderate the executive sessions of the Board's independent Directors; and

- Act as principal liaison between the independent Directors and the Chair on sensitive issues.

- <u>Number of Directors</u>. At the present time, the Board believes that the proper number of Directors to maximize effectiveness of the Board is between 7 and 11 Directors.

- <u>Frequency of Election and Term</u>. The Company's Articles of Incorporation provide for a classified Board serving staggered terms of three years each. The Board will periodically review its classified Board structure in the context of other provisions and measures applicable to unsolicited takeover proposals with the objective of positioning the Board and the Company to maximize the long-term value of the Company for all shareholders.

- <u>Selection Criteria</u>. The criteria for selection and nomination of individual Directors to be applied by the Corporate Governance and Nominating Committee and by the Board shall stress: (i) independence; (ii) integrity; (iii) a proven record of accomplishment and sound judgment in areas relevant to the Company's business; (iv) belief in and passion for the Company's mission and vision; (v) the ability to bring strategic and innovative insights to the discussion and challenge and stimulate management; (vi) willingness to both speak one's mind and consider divergent ideas and opinions; (vii) understanding of, and ability to commit sufficient time to, Board responsibilities and duties; and (viii) subject matter expertise. The Corporate Governance and Nominating Committee is responsible for reviewing periodically with the Board the appropriate skills and characteristics required of Board members in the context of the current membership of the Board. This assessment should include issues of diversity of background and experience and functional skills—all in the context of an assessment of the perceived needs of the Board at that point in time. The Corporate Governance and

Nominating Committee is responsible for recommending Director candidates to the full Board.

- Orientation and Continuing Education. To assist the Directors in fulfilling their responsibilities, the Board will establish an orientation program for new Directors. In addition, the Corporate Governance and Nominating Committee will undertake to determine the most effective and efficient means of continuing education for members of the Board to promote effective contributions from the Board and best practices in corporate governance.

- Requirement of Incumbent Directors who do not Receive a Majority Vote in an Uncontested Election to Tender Resignation. If a nominee for Director who is an incumbent Director is not elected at a meeting of shareholders and no successor to the incumbent Director is elected at the meeting of shareholders, the incumbent Director shall promptly offer to tender his or her resignation to the Board. The Corporate Governance and Nominating Committee shall make a recommendation to the Board on whether to accept or reject the offer, or whether other action should be taken. The Board shall act on whether to accept the Director's offer, taking into account the Corporate Governance and Nominating Committee's recommendation, and publicly disclose (by press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) its decision and the rationale behind it within 90 days after the date of the certification of the election results. The Corporate Governance and Nominating Committee, in making its recommendation, and the Board, in making its decision, may each consider any factors or other recommendations that it considers relevant and appropriate. The incumbent Director who offers to tender his or her resignation shall not participate in the Board's decision. If such incumbent Director's offer to tender his or her resignation is not accepted by the Board, such Director shall continue to serve until the next meeting of shareholders at which Directors are elected and until his or her successor is duly elected, or his or her earlier death, resignation, retirement, disqualification or removal.

- Approach to Term and Age Limits. We believe that specific or fixed term or age limits could cause the Company to arbitrarily lose important contributors to the Board. It is the sense of the Board, however, that a Director who reaches the age of 72 should promptly tender his or her resignation to the Chair of the Corporate Governance and Nominating Committee, and the Board should have an opportunity to review the qualifications of the Director for continued Board membership. The Corporate Governance and Nominating Committee will review the qualifications of the Director for continued Board membership annually and make a recommendation to the Board each year, which will make a final determination with respect to the tendered resignation.

- Change in Responsibilities. Directors who retire or who have a change in their principal employment or affiliation after joining the Board should not necessarily leave the Board. There should, however, be an opportunity for the Board to review the qualifications of the Director for continued Board membership. Any Director who undergoes a material change in principal employment or affiliation will promptly tender his or her resignation to the Chair of the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee will review the qualifications of the Director for continued Board membership and make a recommendation to the Board, which will make a final determination with respect to the tendered resignation.

- Other Board or Audit Committee Service. The Board recognizes that service on other boards can in some circumstances limit the time that Directors may have to devote to fulfilling their responsibilities to the Company. It is the Board's guideline that no Director serve on more than a total of four (4) public company boards (including the Company's Board), no Director who is a named executive officer (of another company) serve on more than a total of two (2) public company boards (including the Company's Board), and that no member of the Company's Audit Committee shall serve on more than a total of three (3) public company audit committees (including the Company's Audit Committee). If any Director exceeds or proposes to exceed these guidelines, the Director shall promptly notify the Chair of the Corporate Governance and Nominating Committee and the Committee will review the facts and circumstances and determine whether such service would interfere with the Director's ability to devote sufficient time to fulfilling the Director's responsibilities to the Company.

A. CONDUCT OF BOARD MEETINGS AND BOARD BUSINESS

- Frequency of Board Meetings. The Board currently has four scheduled meetings per year. The Board believes that four meetings per year are sufficient to effectively conduct Board business based on the size and complexity of the Company's business at this time. The Board will periodically review the frequency of scheduled meetings and make such changes as may be necessary to meet the needs of the business. Additional meetings may be held in person or by telephone conference as the need may arise. In addition, Board business of a routine nature may be conducted through the circulation of written consent resolutions.

- Agendas for Board Meetings. Agendas for Board meetings shall be established by the Chair of the Board and the CEO, who shall endeavor to include agenda items necessary for Board consideration consistent with sound principles of corporate governance and operational oversight, such as strategic plans and budgets. Agenda items that fall within the scope of responsibilities of a Board committee shall be reviewed with the chair of that committee. Any member of the Board may request through the Chair of the Board that an item be included on the agenda for any Board meeting.

- Distribution of Information and Materials. Information and materials that are important to the Board's understanding of the agenda items and business related topics will be distributed sufficiently in advance of the meeting to permit prior review. Highly confidential or sensitive matters may be presented and discussed without prior distribution of background material. Management will keep Board members informed of significant developments between Board meetings.

- Management Presentations and Participation. Management presentations and participation are encouraged to allow Directors to gain additional understanding and insight into the Company's business and related issues, and to obtain exposure to high potential senior managers. In addition, selected management representatives will function as liaisons for each of the Board committees for which they have subject matter expertise.

- Board Communications with Senior Management and Employees. As a general rule, Board member communications with senior management should go through the Chair of the Board or the Lead Director, if applicable. Exceptions to this general rule include (i) Committee Chair communications with management liaisons to their respective Committees and (ii) Board member communication of ideas where no response or action from management is expected. Board contacts with management and employees shall generally occur with the knowledge of the CEO and the member of senior management with responsibility for the applicable functional department.

- Board Evaluation. The Board believes that the Company's governance and the Board's effectiveness can be continually improved through evaluation. The Corporate Governance and Nominating Committee is responsible for overseeing the annual evaluation of the Board's effectiveness in these areas and reviewing the results and recommendations for improvement with the full Board. The evaluation process includes an annual self-evaluation of the Board and its Committees, as well as periodic individual director evaluations, in consultation with an independent external evaluator

- Board Executive Sessions. Executive sessions or meetings of outside Directors without management present will be held at least twice each year. At least one session will be to review the performance criteria applicable to the CEO and other senior managers, the performance of the CEO against such criteria, and the compensation of the CEO and other senior managers. Additional executive sessions or meetings of outside Directors may be held from time to time as required. Any member of the Board may request at any time an executive session without the presence of management. Executive sessions or meetings with the CEO shall be held from time to time for a general discussion of relevant topics.

- External Communications. Under ordinary circumstances, management speaks for the Company and the Chair speaks for the Board. Individual Board members may, from time to time, meet with or communicate with various constituencies that are involved with the Company. It is expected that Board members would do this with the knowledge of management and, in most instances, at the request of management, however this principle shall not be construed to restrict in any way the access to and communication with the outside auditors and outside legal counsel to the Company by any members of the Board.

- Confidentiality. In order to facilitate open discussion and to avoid the possibility of inadvertent release of material, non-public information, Board members are expected to maintain the confidentiality of information presented to the Board and of Board deliberations.

B. BOARD COMPENSATION, STOCK OWNERSHIP AND CONFLICTS OF INTEREST

- Paid Consulting Arrangements. The Board believes that the Company should not enter into paid consulting arrangements with independent Directors.

- Board Compensation. Board compensation should encourage alignment with shareholders' interests and should be at a level equitable to comparable companies. The Management Development and Compensation Committee is responsible for periodic assessments to assure these standards are being met.

- Share Ownership. The number of shares of the Company's common stock owned by each Director is a personal decision; however, the Board strongly supports the position that Directors should own a meaningful number of shares in the Company. The Board has established ownership guidelines that each member of the Board is expected to meet within five years of joining the Board.

- Conflicts of Interest. Directors are expected to avoid any action, position or interest that conflicts with an interest of the Company, or that gives the appearance of a conflict. If any member of the Board becomes aware of any such conflicting or potentially conflicting interest involving any member of the Board, the Director should immediately bring such information to the attention of the Chair of the Board, the CEO and the General Counsel of the Company.

C. BOARD COMMITTEES

- Standing Committees. The standing committees of the Board are the Audit Committee, the Management Development and Compensation Committee and the Corporate Governance and Nominating Committee. Committee responsibilities are detailed in the respective committee charters. Reports of committee meetings shall be given to the full Board, which shall act on the committee recommendations, as appropriate. The Board and its committees are free to engage independent outside advisors, as they deem necessary, to provide advice and counsel on various topics or issues.

- Committee Assignments. Committee and committee chair assignments shall be reviewed regularly, and assignments shall be rotated to ensure that each committee has an appropriate mix of tenure and experience.

- Committee Meetings. The chair of the committee shall determine the frequency, length and agenda of meetings of the committee in consultation with any member of the senior management team with relevant subject matter expertise.

- Distribution of Information. Information and materials that are important to the committee's understanding of the committee's agenda items will be distributed sufficiently in advance of the meeting to permit prior review. Highly confidential or sensitive matters may be presented and discussed without prior distribution of background material.

D. CHIEF EXECUTIVE OFFICER AND SENIOR MANAGEMENT

- Performance Goals and Evaluation. The Management Development and Compensation Committee is responsible for establishing the procedures for setting annual and long-term performance goals for the CEO and for the evaluation by the full Board of his or her performance against such goals. The Committee shall meet at least annually with the CEO to receive his or her recommendations concerning such goals. Both the annual goals and the annual performance evaluation of the CEO shall be reviewed and discussed by the outside Directors at a meeting or executive session of that group. The Management Development and Compensation Committee shall also be responsible for setting annual and long-term performance goals and compensation for the direct reports to the CEO.

- Compensation Philosophy. The Board supports and, through the Management Development and Compensation Committee, oversees employee compensation programs that are closely linked to business performance and emphasize equity ownership.

- Share Ownership. The Board strongly supports the position that members of senior management should own a meaningful number of shares in the Company. The Board and the Management Development and Compensation Committee will undertake to establish and implement programs and policies designed to achieve that objective. The Board has established ownership guidelines that each member of the senior management team is expected to meet within five years of joining the senior management team.

- Senior Management Depth and Development. The CEO will report, at least annually, to the Board on senior management depth and development, including a discussion of assessments, leadership development plans and other relevant factors.

- CEO Service on Other Boards. The CEO shall not serve on more than one (1) public company boards other than the Board of Directors of the Company.

E. SHAREHOLDER RIGHTS

- Provisions Applicable to Unsolicited Takeover Attempts or Proposals. The Board will periodically review (not less often than every three years) the Company's Articles of Incorporation and Bylaws and various provisions that are designed to maximize shareholder value in the event of an unsolicited takeover attempt or proposal. Such review shall include consideration of matters such as the Company's State of Incorporation, whether the Company should opt in or out of applicable control share acquisition or business combination statutes, and provisions such as the Company's classified Board structure. The objective of such review will be to maintain a proper balance of provisions that will not deter bona fide proposals from coming before the Board, and that will position the Board and the Company to maximize the long-term value of the Company for all shareholders.

- Shareholder Approval of Equity-Based Compensation Plans. Shareholder approval will be sought for all equity-based compensation plans.