

**SLEEP NUMBER CORPORATION  
RELATED PARTY TRANSACTIONS POLICY  
(Effective as of March 2016)**

Sleep Number Corporation (the “Company”) has adopted the following policy and procedures with regard to Related Party Transactions as defined below.

**Purpose**

This policy is intended to ensure the proper approval and reporting of transactions between the Company and any of its directors, nominees for director, Executive Officers or Significant Stockholders or certain entities or persons related to them. Any proposed or existing Related Party Transaction is subject to the approval or ratification of the Corporate Governance and Nominating Committee of the Board of Directors (the “Committee”). The Company is required to disclose each year in its proxy statement any Related Party Transactions as well as the Company’s policies concerning such transactions. In addition, the Board would review any Related Party Transactions involving non-employee directors as part of the annual determination of directors’ independence.

**Definitions**

- "Executive Officer" means any person who is subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended, as designated by the Board.
- “Immediate Family Member” means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of a director, nominee for director, Executive Officer or Significant Stockholder, and any person (other than a tenant or employee) sharing the household of such director, nominee for director, Executive Officer or Significant Stockholder.
- “Related Party” means any person who is or at any time since the beginning of the Company’s last fiscal year was:
  - A director, nominee for director or Executive Officer of the Company; or
  - A Significant Stockholder; or
  - An Immediate Family Member of any of the foregoing persons.
- “Related Party Transaction” means:
  - Any transaction directly or indirectly involving any Related Party that would be required to be disclosed under Item 404(a) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended. Item 404(a) currently requires the Company to disclose any transaction occurring since the beginning of its last fiscal year, or any currently proposed transaction, involving the Company in which the amount involved exceeds \$120,000, and in which any Related Party had or will have a direct or indirect material interest; and

- Any material amendment or modification to an existing Related Party Transaction regardless of whether such transaction has previously been approved in accordance with this policy.
- “Significant Stockholder” means an entity or person known by the Company to be the beneficial owner of more than 5 percent of any class of the Company's voting securities.

Notwithstanding the foregoing, the following shall not be deemed Related Party Transactions:

- Any transaction that involves the providing of compensation to a director or Executive Officer in connection with his or her duties in any such capacity to the Company or any of its subsidiaries or affiliates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.
- Indemnification and advancement of expenses made pursuant to the Company’s Articles of Incorporation or Bylaws or pursuant to any agreement.
- Any transaction in which the Related Party’s interest arises solely from ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata based solely on shares held.

### **Policy**

Directors and executive officers are expected to avoid any action, position or interest which conflicts with an interest of the company, or that gives the appearance of a conflict. This policy is in addition to the provisions dealing with conflicts of interest in the Company’s Code of Business Conduct.

A substantial majority of the members of the Board should be independent, non-employee directors. It is the responsibility of the Board, through the Committee, to establish the standards for independence.

All Related Party Transactions must be reported to the General Counsel of the Company and referred for approval or ratification by the Committee. All Related Party Transactions shall be disclosed in accordance with applicable law.

### **Identification of Potential Related Party Transactions**

Each director, nominee for director and Executive Officer is responsible for providing written notice to the General Counsel of any proposed or existing Related Party Transaction involving him or her or his or her Immediate Family Member, including any additional information about the transaction that the General Counsel may reasonably request. The General Counsel, in consultation with outside counsel if necessary, will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

In addition, each director, nominee for director and Executive Officer is required to complete a questionnaire in connection with the annual proxy statement that is designed to elicit

relevant information with respect to any current, past or proposed Related Party Transactions.

The Company prefers sufficient advance notice of any proposed Related Party Transaction in order to enable timely review of relevant information and informed deliberation by the approval authority. Ratification of a Related Party Transaction after its commencement may be appropriate in some circumstances, however.

### **Review and Approval of Related Party Transactions**

Related Party Transactions will be referred to the Committee for review and approval or ratification. Any member of the Committee who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from voting on the approval or ratification of the Related Party Transaction, but may participate in all or a portion of the Committee's discussions of the Related Party Transaction, if requested by the Chair of the Committee.

To review a Related Party Transaction, the Committee will be provided with all relevant material information of the Related Party Transaction, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters. In determining whether to approve or ratify a Related Party Transaction, the Committee may consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- Whether the terms of the Related Party Transaction are fair to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- Whether the Related Party Transaction would impair the independence of an otherwise independent director or nominee for director;
- Whether the Company was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification would be detrimental to the Company; and
- Whether the Related Party Transaction would present an improper conflict of interest for any director, nominee for director or Executive Officer of the Company, taking into account the size of the transaction, the overall financial position of the director, nominee for director, Executive Officer or other Related Party, the direct or indirect nature of the director's, nominee's, Executive Officer's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Committee deems relevant.

In any case where the Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction, or modification of the

transaction to make it acceptable for ratification. In connection with any review of a Related Party Transaction, the Committee has authority to modify or waive any procedural requirements of this Policy.

If the Committee or its Chair determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.