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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 30, 2024

OR

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

Commission File Number: 000-25121

SLEEP NUMBER CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota	**41-1597886**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1001 Third Avenue South	
Minneapolis, Minnesota	**55404**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of March 30, 2024, 22,326,000 shares of the registrant's Common Stock were outstanding.

SLEEP NUMBER CORPORATION
AND SUBSIDIARIES
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PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	March 30, 2024	December 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 2,068	$ 2,539
Accounts receivable, net of allowances of $ 1,090 and $ 1,437 , respectively	21,833	26,859
Inventories	100,904	115,433
Prepaid expenses	20,655	16,660
Other current assets	35,589	44,637
Total current assets	181,049	206,128
Non-current assets:		
Property and equipment, net	167,037	179,503
Operating lease right-of-use assets	387,942	395,411
Goodwill and intangible assets, net	66,579	66,634
Deferred income taxes	21,181	20,253
Other non-current assets	84,685	82,951
Total assets	$ 908,473	$ 950,880
Liabilities and Shareholders' Deficit		
Current liabilities:		
Borrowings under revolving credit facility	$ 523,500	$ 539,500
Accounts payable	125,304	135,901
Customer prepayments	50,262	49,143
Accrued sales returns	22,415	22,402
Compensation and benefits	28,296	28,273
Taxes and withholding	16,661	17,134
Operating lease liabilities	81,300	81,760
Other current liabilities	58,454	61,958
Total current liabilities	906,192	936,071
Non-current liabilities:		
Operating lease liabilities	343,447	351,394
Other non-current liabilities	104,697	105,343
Total liabilities	1,354,336	1,392,808
Shareholders' deficit:		
Undesignated preferred stock; 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $ 0.01 par value; 142,500 shares authorized, 22,326 and 22,235 shares issued and outstanding, respectively	223	222
Additional paid-in capital	20,262	16,716
Accumulated deficit	(466,348)	(458,866)
Total shareholders' deficit	(445,863)	(441,928)
Total liabilities and shareholders' deficit	$ 908,473	$ 950,880

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 30, 2024	**April 1, 2023**
Net sales	$ 470,449	$ 526,527
Cost of sales	194,275	216,262
Gross profit	276,174	310,265
Operating expenses:		
Sales and marketing	208,512	230,488
General and administrative	39,079	39,401
Research and development	12,441	14,443
Restructuring costs	10,600	—
Total operating expenses	270,632	284,332
Operating income	5,542	25,933
Interest expense, net	12,299	9,102
(Loss) income before income taxes	(6,757)	16,831
Income tax expense	725	5,366
Net (loss) income	$ (7,482)	$ 11,465
Basic net (loss) income per share:		
Net (loss) income per share – basic	$ (0.33)	$ 0.51
Weighted-average shares – basic	22,506	22,296
Diluted net (loss) income per share:		
Net (loss) income per share – diluted	$ (0.33)	$ 0.51
Weighted-average shares – diluted	22,506	22,583

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at December 30, 2023	22,235	$ 222	$ 16,716	$ (458,866)	$ (441,928)
Net loss	—	—	—	(7,482)	(7,482)
Exercise of common stock options	—	—	—	—	—
Stock-based compensation	134	1	4,116	—	4,117
Repurchases of common stock	(43)	—	(570)	—	(570)
Balance at March 30, 2024	22,326	$ 223	$ 20,262	$ (466,348)	$ (445,863)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at December 31, 2022	22,014	$ 220	$ 5,182	$ (443,579)	$ (438,177)
Net income	—	—	—	11,465	11,465
Exercise of common stock options	17	—	389	—	389
Stock-based compensation	271	3	4,636	—	4,639
Repurchases of common stock	(118)	(1)	(3,362)	—	(3,363)
Balance at April 1, 2023	22,184	$ 222	$ 6,845	$ (432,114)	$ (425,047)

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 30, 2024	**April 1, 2023**
Cash flows from operating activities:		
Net (loss) income	$ (7,482)	$ 11,465
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,487	18,218
Stock-based compensation	4,117	4,639
Net loss on disposals and impairments of assets	2,500	12
Deferred income taxes	(928)	(3,252)
Changes in operating assets and liabilities:		
Accounts receivable	5,026	2,717
Inventories	14,529	(2,747)
Income taxes	1,587	8,736
Prepaid expenses and other assets	5,473	(11,056)
Accounts payable	(2,765)	(574)
Customer prepayments	1,119	(4,639)
Accrued compensation and benefits	30	(593)
Other taxes and withholding	(2,060)	(711)
Other accruals and liabilities	(4,888)	(3,634)
Net cash provided by operating activities	33,745	18,581
Cash flows from investing activities:		
Purchases of property and equipment	(9,308)	(15,556)
Issuance of note receivable	(2,942)	—
Net cash used in investing activities	(12,250)	(15,556)
Cash flows from financing activities:		
Net decrease in short-term borrowings	(21,396)	(384)
Repurchases of common stock	(570)	(3,363)
Proceeds from issuance of common stock	—	389
Net cash used in financing activities	(21,966)	(3,358)
Net decrease in cash and cash equivalents	(471)	(333)
Cash and cash equivalents, at beginning of period	2,539	1,792
Cash and cash equivalents, at end of period	$ 2,068	$ 1,459

See accompanying notes to condensed consolidated financial statements.

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

1. Business and Summary of Significant Accounting Policies

Business & Basis of Presentation

The Company prepared the condensed consolidated financial statements as of and for the three months ended March 30, 2024 of Sleep Number Corporation and its 100%-owned subsidiaries (Sleep Number or the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and they reflect, in the opinion of management, all normal recurring adjustments necessary to present fairly its financial position as of March 30, 2024 and December 30, 2023, and the consolidated results of operations and cash flows for the periods presented. The historical and quarterly consolidated results of operations may not be indicative of the results that may be achieved for the full year or any future period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the most recent audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 30, 2023 and other recent filings with the SEC.

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

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

2. Fair Value Measurements

At both March 30, 2024 and December 30, 2023, the Company had $ 19 million, of debt and equity securities that fund the deferred compensation plan and are classified in other non-current assets. The Company also had corresponding deferred compensation plan liabilities of $ 19 million at both March 30, 2024 and December 30, 2023, which are included in other non-current liabilities. The majority of the debt and equity securities are Level 1 as they trade with sufficient frequency and volume to enable the Company to obtain pricing information on an ongoing basis. Unrealized gains/(losses) on the debt and equity securities offset those associated with the corresponding deferred compensation plan liabilities.

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3. Inventories

Inventories consisted of the following (in thousands):

	March 30, 2024	December 30, 2023
Raw materials	$ 8,074	$ 9,092
Work in progress	101	92
Finished goods	92,729	106,249
	$ 100,904	$ 115,433

4. Goodwill and Intangible Assets, Net

Goodwill and Indefinite-lived Intangible Assets

Goodwill was $ 64 million at March 30, 2024 and December 30, 2023. Indefinite-lived trade name/trademarks totaled $ 1.4 million at March 30, 2024 and December 30, 2023.

Definite-lived Intangible Assets

Patents were $ 2.0 million at both March 30, 2024 and December 30, 2023. Accumulated amortization was $ 0.8 million at March 30, 2024 and December 30, 2023. Amortization expense for both the three months ended March 30, 2024 and April 1, 2023, was $ 55 thousand.

Annual amortization for Patents for subsequent years are as follows (in thousands):

2024 (excluding the three months ended March 30, 2024)	$ 166
2025	226
2026	222
2027	222
2028	155
2029	99
Thereafter	46
Total future amortization for definite-lived intangible assets	$ 1,136

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5. Credit Agreement

As of March 30, 2024, the Company’s credit facility had a total commitment amount of $ 683 million. The credit facility is for general corporate purposes, to meet seasonal working capital requirements and to repurchase its stock. The Credit Agreement includes an accordion feature which allows the Company to increase the amount of the credit facility from $ 683 million to $ 1.0 billion, subject to lenders’ approval. The Credit Agreement provides the lenders with a collateral security interest in substantially all of the Company’s assets and those of its subsidiaries and requires the Company to comply with, among other things, a maximum net leverage ratio and a minimum interest coverage ratio.

The maximum net leverage ratio permitted by the Credit Agreement is 5.00 to 1.00 for the quarterly period ended March 30, 2024; 5.50 to 1.00 for the quarterly reporting period ending June 29, 2024; 5.00 to 1.00 for the quarterly reporting period ending September 28, 2024; 4.80 to 1.00 for the quarterly reporting period ending December 28, 2024; and 4.00 to 1.00 for each quarterly reporting period occurring thereafter.

The minimum interest coverage ratio permitted by the Credit Agreement is 1.50 to 1.00 for the quarterly period ended March 30, 2024; 1.25 to 1.00 for the quarterly reporting period ending June 29, 2024; 1.50 to 1.00 for the quarterly reporting periods ending September 28, 2024 and December 28, 2024; and 3.00 to 1.00 for each quarterly reporting period occurring thereafter.

The carrying amount of the outstanding borrowings under the Credit Agreement approximates fair value because interest rates approximate the current rates available to the Company. Under the terms of the Credit Agreement, the Company pays a variable rate of interest and a commitment fee based on its leverage ratio. The Credit Agreement matures in December 2026. The Company was in compliance with all financial covenants as of March 30, 2024.

The following table summarizes the Company’s borrowings under the credit facility ($ in thousands):

	March 30, 2024	December 30, 2023
Outstanding borrowings	$ 523,500	$ 539,500
Outstanding letters of credit	$ 7,147	$ 7,147
Additional borrowing capacity	$ 151,853	$ 138,353
Weighted-average interest rate	8.4 %	8.5 %

6. Leases

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

The Company’s operating lease costs include facility, vehicle and equipment lease costs, but exclude variable lease costs. Operating lease costs are recognized on a straight-line basis over the lease term, after consideration of rent escalations and rent holidays. The lease term for purposes of the calculation begins on the earlier of the lease commencement date or the date the Company takes possession of the property. During lease renewal negotiations that extend beyond the original lease term, the Company estimates straight-line rent expense based on current market conditions. Variable lease costs are recorded when it is probable the cost has been incurred and the amount can be reasonably estimated.

At March 30, 2024, the Company's finance right-of-use assets and lease liabilities were not significant.

Lease costs were as follows (in thousands):

	Three Months Ended	
	March 30, 2024	April 1, 2023
Operating lease costs[1]	$ 26,826	$ 28,289
Variable lease costs[2]	$ (49)	$ 56

[1] Includes short-term lease costs which are not significant.

[2] Variable lease costs include adjustments to percentage rent.

The maturities of operating lease liabilities as of March 30, 2024, were as follows [1] (in thousands):

2024 (excluding the three months ended March 30, 2024)	$ 80,181
2025	99,566
2026	87,575
2027	71,617
2028	59,845
2029	40,157
Thereafter	70,786
Total operating lease payments[2]	509,727
Less: Interest	84,980
Present value of operating lease liabilities	$ 424,747

[1] Future payments for real estate taxes and certain building operating expenses for which the Company is obligated are not included in the operating lease liabilities. Total operating lease payments exclude $ 13 million of legally binding minimum lease payments for leases signed but not yet commenced.

[2] Includes the current portion of $ 81 million for operating lease liabilities.

Other information related to operating leases was as follows:

	March 30, 2024	December 30, 2023
Weighted-average remaining lease term (in years)	5.8	5.9
Weighted-average discount rate	6.6 %	6.5 %

	Three Months Ended	
(in thousands)	March 30, 2024	April 1, 2023
Cash paid for amounts included in present value of operating lease liabilities	$ 27,222	$ 26,538
Right-of-use assets obtained in exchange for operating lease liabilities	$ 12,990	$ 14,717

7. Repurchases of Common Stock

For the three months ended March 30, 2024 and April 01, 2023, we repurchased $ 1 million and $ 3 million, respectively, of common stock in connection with the vesting of restricted stock grants. We made no purchases under the Board-approved stock purchase plan in either period. As of March 30, 2024, the remaining authorization under the Board-approved $ 600 million share repurchase program was $ 348 million.

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(unaudited)

8. Revenue Recognition

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

	March 30, 2024	December 30, 2023
Deferred contract assets included in:		
Other current assets	$ 29,189	$ 28,567
Other non-current assets	54,015	54,795
	$ 83,204	$ 83,362

	March 30, 2024	December 30, 2023
Deferred contract liabilities included in:		
Other current liabilities	$ 37,134	$ 36,421
Other non-current liabilities	67,971	69,098
	$ 105,105	$ 105,519

Deferred revenue and costs related to SleepIQ ® technology are currently recognized on a straight-line basis over the product's estimated life of 4.5 to 5.0 years because the Company’s inputs are generally expended evenly throughout the performance period. During both the three months ended March 30, 2024 and April 1, 2023, the Company recognized revenue of $ 10 million, that was included in the deferred contract liability balances at the beginning of the respective periods.

Revenue from goods and services transferred to customers at a point in time accounted for approximately 98 % of revenues for both the three months ended March 30, 2024 and April 1, 2023.

Net sales were as follows (in thousands):

	Three Months Ended	
	March 30, 2024	April 1, 2023
Retail stores	$ 414,755	$ 458,663
Online, phone, chat and other	55,694	67,864
Total Company	$ 470,449	$ 526,527

Obligation for Sales Returns

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
Balance at beginning of year	$ 22,402	$ 25,594
Additions that reduce net sales	25,470	29,843
Deductions from reserves	(25,457)	(31,366)
Balance at end of period	$ 22,415	$ 24,071

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9. Stock-based Compensation Expense

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
Stock awards [1]	$ 3,144	$ 3,855
Stock options	973	784
Total stock-based compensation expense [1]	4,117	4,639
Income tax benefit	910	1,253
Total stock-based compensation expense, net of tax	$ 3,207	$ 3,386

[1] Changes in stock-based compensation expense include the cumulative impact of the change in the expected achievements of certain performance targets.

10. Profit Sharing and 401(k) Plan

Under the Company's profit sharing and 401(k) plan, eligible employees may defer up to 50 % of their compensation on a pre-tax basis, subject to Internal Revenue Service limitations. Each pay period, the Company makes a contribution equal to a percentage of the employee's contribution. During the three months ended March 30, 2024 and April 1, 2023, the Company's contributions, net of forfeitures, were $ 2.0 million and $ 2.4 million, respectively.

11. Net Income per Common Share

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
Net (loss) income	$ (7,482)	$ 11,465
Reconciliation of weighted-average shares outstanding:		
Basic weighted-average shares outstanding	22,506	22,296
Dilutive effect of stock-based awards	—	287
Diluted weighted-average shares outstanding	22,506	22,583
Net (loss) income per share – basic	$ (0.33)	$ 0.51
Net (loss) income per share – diluted	$ (0.33)	$ 0.51

For the three months ended March 30, 2024, otherwise dilutive stock-based awards have been excluded from the calculation of diluted weighted-average shares outstanding, as their inclusion would have had an anti-dilutive effect on our net loss per diluted share. Additional potential dilutive stock-based awards totaling 1.3 million and 1.1 million for the three months ended March 30, 2024 and April 1, 2023, respectively, have been excluded from the diluted net (loss)/income per share calculations because these stock-based awards were anti-dilutive.

12. Restructuring Costs

In the fourth quarter of 2023, the Company initiated cost reduction actions to reduce operating expenses and accelerate gross margin initiatives, and recognized $ 15.7 million of restructuring costs in that quarter. In addition to the costs incurred in 2023, the Company incurred an additional $ 10.6 million of restructuring costs in the first quarter of 2024. Charges incurred related to this initiative were comprised of contract termination costs, severance and employee-related benefits, professional fees and other, and asset impairment charges and are included in the restructuring costs line in the Company's consolidated statement of operations. The Company expects an additional $ 3 million of restructuring costs to be incurred through the remainder of 2024.

During the first quarter of fiscal 2024, the Company recognized $ 10.6 million of restructuring costs, as follows (in thousands):

	Three Months Ended	
	March 30, 2024	
Cash restructuring costs:		
Contract termination costs [1]	$	4,413
Severance and employee-related benefits		841
Professional fees and other		2,846
Total cash restructuring costs		8,100
Non-cash restructuring costs:		
Asset impairments [2]		2,500
Total restructuring costs	$	10,600

[1] Primarily comprised of lease termination costs.

[2] Primarily comprised of impairments of property and equipment.

The following table provides the activity in the Company's restructuring related liabilities, which are included within accounts payable, compensation and benefits and other current liabilities on the consolidated balance sheet (in thousands):

	Three Months Ended	
	March 30, 2024	
Balance at the beginning of year	$	8,720
Expenses		8,100
Cash payments		(11,391)
Balance at the end of the period	$	5,429

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Since the initiation of cost reduction actions in the fourth quarter of 2023, the Company has recognized a cumulative $ 26.3 million of restructuring costs, as follows (in thousands):

		Cumulative
		March 30, 2024
Cash restructuring costs:		
Contract termination costs [(1)]	$	11,823
Severance and employee-related benefits		5,807
Professional fees and other		3,956
Total cash restructuring costs		21,586
Non-cash restructuring costs:		
Asset impairments [(2)]		4,742
Total restructuring costs	$	26,328

(1) Primarily comprised of lease termination costs.

(2) Includes impairments of both lease right-of-use assets and property and equipment.

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13. Commitments and Contingencies

Warranty Liabilities

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
Balance at beginning of period	$ 8,503	$ 8,997
Additions charged to costs and expenses for current-year sales	4,551	4,371
Deductions from reserves	(4,535)	(4,325)
Changes in liability for pre-existing warranties during the current year, including expirations	231	(88)
Balance at end of period	$ 8,750	$ 8,955

Legal Proceedings

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

Purported Class Action Complaint

On December 15, 2023, a former Field Services team member filed a purported class action Complaint in the Superior Court of California, County of Santa Clara, alleging violations of California's meal and rest break law and additional wage and hour derivative claims under the California Labor Code. While the representative plaintiff was in the Field Services workforce, the Complaint does not limit the purported plaintiff class to that group, but rather extends to all non-exempt Sleep Number employees in the state. The plaintiff alleges that Sleep Number failed to provide compliant meal or rest breaks, failed to pay wages owed due to alleged off the clock work, failed to pay overtime, minimum wage and wages due at termination, thus resulting in inaccurate wage statements, all in violation of California law. The Complaint seeks damages in the form of unpaid regular and premium wages, statutory penalties, pre-judgment and post-judgment interest, plaintiffs' attorneys' fees and costs. On February 22, 2024, the plaintiff filed a related lawsuit in the same county alleging violations of a broad range of California Labor Code wage and hour violations under the state's Private Attorney General Act (PAGA), including the same meal and rest break, and wage and hour, violations as appear in the purported class action. The cases are set for a case management conference on May 8, 2024, after which we expect a scheduling order will be issued.

Shareholder Class Action Complaints

On December 14, 2021, purported Sleep Number shareholder, Steamfitters Local 449 Pension & Retirement Security Funds (Steamfitters), filed a putative class action complaint in the United States District Court for the District of Minnesota (the District of Minnesota) on behalf of all purchasers of Sleep Number common stock between February 18, 2021 and July 20, 2021, inclusive, against Sleep Number, Shelly Ibach and David Callen, the Company's former

Executive Vice President and Chief Financial Officer. Steamfitters alleges material misstatements and omissions in certain of Sleep Number's public disclosures during the purported class period, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The complaint seeks, among other things, unspecified monetary damages, reasonable costs and expenses and equitable/injunctive or other relief as deemed appropriate by the District of Minnesota.

On February 14, 2022, a second purported Sleep Number shareholder, Ricardo Dario Schammas, moved for appointment as lead plaintiff in the action. On March 24, 2022, the District of Minnesota heard argument on Schammas's motion, and subsequently appointed Steamfitters and Schammas as Co-Lead Plaintiffs (together, Co-Lead Plaintiffs). On July 19, 2022, Co-Lead Plaintiffs filed a consolidated amended complaint, which, like the predecessor complaint, asserts claims against Sleep Number, Shelly Ibach, and David Callen under Sections 10(b) and 20(a) of the Exchange Act. Co- Lead Plaintiffs purport to assert these claims on behalf of all purchasers of Sleep Number common stock between February 18, 2021 and July 20, 2021. On September 19, 2022, Defendants moved to dismiss the consolidated amended complaint, which motion was heard by the Court on January 17, 2023. On July 10, 2023, the Court issued an order dismissing the Plaintiffs' consolidated amended complaint with prejudice.

Shareholder Derivative Complaint

On May 12, 2022, Gwendolyn Calla Moore, as the appointed representative of purported Sleep Number shareholder Matthew Gelb, filed a derivative action (the Derivative Action) in the District of Minnesota against Jean-Michel Valette, Shelly Ibach, Barbara Matas, Brenda Lauderback, Daniel Alegre, Deborah Kilpatrick, Julie Howard, Kathleen Nedorostek, Michael Harrison, Stephen Gulis, Jr., David Callen, and Kevin Brown. Moore purports to assert claims on behalf of Sleep Number for breaches of fiduciary duty, waste, and contribution under Sections 10(b) and 21(d) of the Exchange Act. Moore's allegations generally mirror those asserted in the securities complaint described above. The Moore complaint seeks damages in an unspecified amount, disgorgement, interest, and costs and expenses, including attorneys' and experts' fees.

On September 13, 2022, the District of Minnesota entered a joint stipulation staying all proceedings in the Derivative Action pending the outcome of any motion to dismiss the Steamfitters consolidated amended complaint. On July 10, 023, the District of Minnesota in the Steamfitters case dismissed the consolidated amended complaint with prejudice, as noted above. The Plaintiff in the Derivative Action subsequently moved the Court to voluntarily dismiss its the Complaint and on January 22, 2024, the District of Minnesota dismissed the Derivative Action without prejudice.

Stockholder Demand

On March 25, 2022, Sleep Number received a shareholder litigation demand (the "Demand"), requesting that the Board investigate the allegations in the Steamfitters complaint and pursue claims on Sleep Number's behalf based on those allegations. On May 12, 2022, the Board established a special litigation committee to investigate the demand.

On October 5 and October 12, 2022, Sleep Number received two additional shareholder litigation demands, which adopted and incorporated the allegations and requests in the Demand. Both of these additional litigation demands were referred to the special litigation committee.

The special litigation committee has concluded that it would not be in the best interests of Sleep Number and its shareholders to take any of the actions requested in the demands at this time.

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

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

- Forward-Looking Statements and Risk Factors
- Business Overview
- Results of Operations
- Liquidity and Capital Resources
- Non-GAAP Data Reconciliations
- Off-Balance-Sheet Arrangements and Contractual Obligations
- Critical Accounting Policies

Forward-looking Statements and Risk Factors

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

- Changes in economic conditions and consumer sentiment and related impacts on discretionary consumer spending;
- Increases in interest rates, which have increased the cost of servicing the Company’s indebtedness;
- Availability of attractive and cost-effective consumer credit options;
- Ability to achieve savings and efficiencies from cost savings plans related to business restructuring actions and to avoid unexpected adverse effects;
- Dependence on, and ability to maintain working relationships and favorable contractual terms with key suppliers and third parties;
- Fluctuations in commodity costs or third-party delivery or logistics costs and other inflationary pressures;
- Risks inherent in global-sourcing activities, including tariffs, foreign regulation, geo-political turmoil, war, pandemics, labor challenges, foreign currency fluctuations, inflation, and climate or other disasters, and resulting supply shortages and production and delivery delays and disruptions;
- Operating with minimal levels of inventory, which may leave the Company vulnerable to supply shortages, as well as carrying excess levels of inventory for various products from time to time, which may leave the Company vulnerable to inventory obsolescence and write-downs;
- The effectiveness of the Company’s marketing strategy and promotional efforts;
- The execution of Sleep Number’s Total Retail distribution strategy;
- Ability to achieve and maintain high levels of product quality and to improve and expand the product line;
- Ability to protect the Company’s technology, trademarks, and brand and the adequacy of its intellectual property rights;
- Ability to effectively compete;
- Risks of disruption in the operation of any of the Company’s facilities and operations, including manufacturing, assembly, distribution, logistics, field services, home delivery, headquarters, product development, retail or customer service operations;
- Ability to comply with existing and changing government regulations and laws;
- Pending or unforeseen litigation and the potential for associated adverse publicity;
- The adequacy of the Company’s and third-party information systems and costs and disruptions related to upgrading or maintaining these systems;

- The Company’s ability to identify and withstand cyber threats that could compromise the security of its systems, result in a data breach or business disruption;
- Risks associated with advancements in or adoption of artificial intelligence technologies;
- Sleep Number’s ability, and the ability of its suppliers and vendors, to attract, retain and motivate qualified and effective personnel;
- The volatility of Sleep Number stock, its removal from various stock indices, and the potential negative effects of shareholder activism or of changes in coverage by securities analysts;
- Environmental, social and governance risks, including increasing regulation and stakeholder expectations; and
- The Company’s ability to adapt to climate change and readiness for legal or regulatory responses thereto.

Additional information concerning these, and other risks and uncertainties is contained under the caption “Risk Factors” in Part I, Item 1A. in the Company’s Annual Report on Form 10-K and in Part II. Item 1A. in subsequent Quarterly Reports on Form 10-Q.

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

Business Overview

Sleep Number is a wellness technology company and market leader in the design, manufacturing, marketing and distribution of highly innovative sleep solutions. The Company’s purpose is to improve the health and wellbeing of society through higher quality sleep; to date, it has improved the lives of over 15 million people. Sleep Number’s Smart Sleepers benefit from individualized sleep experiences, night after night, and are experiencing the physical, mental and emotional benefits of life-changing sleep.

Sleep Number’s life-changing, differentiated smart beds combine physical and digital innovations, integrating unparalleled physical comfort with a highly advanced technology platform. The smart beds offer the Company’s signature firmness adjustability, enabling each sleeper adjustable comfort. Embedded digital sensors learn the sleep needs of each individual; “sense and do” technology uses the sensed data to automatically adjust the smart bed to keep the sleeper comfortable throughout the night. Active temperature balancing technology supports the ideal climate for both sleepers and solves a prevalent sleep challenge. Additionally, the smart beds are an exceptional value, with personalized sleep insights delivered daily, new features regularly added to all smart beds through over-the-air updates, and prices to meet most budgets. Sleep Number® smart beds provide unmatched features, benefits and comfort that can lead to improved sleep health and wellness for both sleepers.

The Company’s advantaged business model is supported by its consumer innovation strategy: an individualized sleep wellness platform, a network of highly engaged Smart Sleepers, a vertically integrated operating model, and a culture of individuality, with an ambitious vision to become one of the world’s most beloved brands. Sleep Number’s exclusive distribution meets its customers whenever and wherever they choose – through digital and in-store touchpoints – to provide an exceptional experience and a lifelong relationship. The Company partners with world-leading institutions to bring the power of nearly 26 billion hours of longitudinal sleep data to sleep science and research. And Sleep Number’s 4,000 purpose-driven team members are dedicated to the Company’s mission of improving lives by individualizing sleep experiences.

Sleep Number is focused on cost improvement through broad-based restructuring actions to become a stronger, more durable company, poised for accelerating growth and superior shareholder returns as the bedding industry demand environment improves. The Company generates revenue by marketing and selling its innovative smart beds directly to new and existing customers through its vertically integrated, exclusive, direct-to-consumer retail touch points including Stores, Online, Phone, and Chat (Total Retail).

Results of Operations

Quarterly and Year-to-Date Results

Quarterly and year-to-date operating results may fluctuate significantly as a result of a variety of factors, including increases or decreases in sales, timing, amount and effectiveness of advertising expenditures, changes in sales return rates or warranty experience, timing of investments in growth initiatives and infrastructure, timing of store openings/closings and related expenses, changes in net sales resulting from changes in the Company's store base, timing of new product introductions and related expenses, timing of promotional offerings, competitive factors, changes in commodity costs, disruptions in global supplies or third-party service providers, seasonality of retail and bedding industry sales, consumer sentiment and general economic conditions. The extent to which these external factors will impact the Company's business and its consolidated financial results will depend on future developments, which are highly uncertain and cannot be predicted. Therefore, the historical results of operations may not be indicative of the results that may be achieved for any future period.

Highlights

Financial highlights for the three months ended March 30, 2024 were as follows:

- Net sales for the three months ended March 30, 2024 of $470 million decreased 11% from $527 million for the same period one year ago. The mattress industry is in a historic recession, while consumer sentiment is improving, consumer purchasing power remains limited, and consumers are scrutinizing their spending.
- The net sales change resulted from an 11% comparable sales decrease in Total Retail. For additional details, see the components of total net sales change on page 19.
- Sales per store (sales for stores open at least one year, Total Retail, including online, phone and chat) on a trailing twelve-month basis for the period ended March 30, 2024 totaled $2.8 million, compared with $3.2 million for the same period last year.
- Operating income for the three months ended March 30, 2024 was $6 million, compared with $26 million in the prior-year period. The $20 million decrease in operating income was driven by the lower net sales and a 0.2 ppt. decrease in the gross profit rate, partly offset by a $14 million reduction in operating expenses. Operating expenses for the three months ended March 30, 2024 included $11 million of restructuring costs.
- Adjusted EBITDA for the three months ended March 20, 2024 was $37 million, compared to $49 million in the prior-year period as ongoing cost reduction actions partially offset the year-over-year net sales decline.
- The 0.2 ppt. gross profit rate decrease was primarily due to product mix of our FlexFit smart adjustable bases, partly offset by improvement in commodity prices and operating efficiencies. See the Gross profit discussion on page 20 for additional details.
- The $14 million reduction in the Company's operating expenses was due to lower sales and marketing and research and development expenses, partly offset by $11 million of restructuring costs.
- Net loss for the three months ended March 30, 2024 was $7 million, compared with net income of $11 million for the same period one year ago. Net loss per diluted share was $0.33, compared with net income per diluted share of $0.51 last year.
- The Company's adjusted return on invested capital (Adjusted ROIC) was 4.5% on a trailing twelve-month basis for the period ended March 30, 2024, compared with 20.4% for the comparable period one year ago.
- The Company generated $34 million in cash from operating activities for the three months ended March 30, 2024, compared with $19 million for the same period one year ago.
- Free cash flow of $24 million for the three months ended March 30, 2024, compared with $3 million for the same period one year ago.
- As of March 30, 2024, the Company had $524 million of borrowings under its revolving credit facility.

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

	Three Months Ended			
	March 30, 2024		April 1, 2023	
Net sales	$ 470.4	100.0 %	$ 526.5	100.0 %
Cost of sales	194.3	41.3 %	216.3	41.1 %
Gross profit	276.2	58.7 %	310.2	58.9 %
Operating expenses:				
Sales and marketing	208.5	44.3 %	230.5	43.8 %
General and administrative	39.1	8.3 %	39.4	7.5 %
Research and development	12.4	2.6 %	14.4	2.7 %
Restructuring costs	10.6	2.3 %	—	— %
Total operating expenses	270.6	57.5 %	284.3	54.0 %
Operating income	5.5	1.2 %	25.9	4.9 %
Interest expense, net	12.3	2.6 %	9.1	1.7 %
(Loss) income before income taxes	(6.8)	(1.4 %)	16.8	3.2 %
Income tax expense	0.7	0.2 %	5.4	1.0 %
Net (loss) income	$ (7.5)	(1.6 %)	$ 11.5	2.2 %
Net (loss) income per share:				
Basic	$ (0.33)		$ 0.51	
Diluted	$ (0.33)		$ 0.51	
Weighted-average number of common shares:				
Basic	22.5		22.3	
Diluted	22.5		22.6	

The percentage of total net sales, by dollar volume, was as follows:

	Three Months Ended	
	March 30, 2024	April 1, 2023
Retail stores	88.2 %	87.1 %
Online, phone, chat and other	11.8 %	12.9 %
Total Company	100.0 %	100.0 %

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
Sales change rates:		
Retail comparable-store sales [(1)]	(10 %)	1 %
Online, phone and chat	(19 %)	(18 %)
Total Retail comparable sales change [(1)]	(11 %)	(2 %)
Net opened/closed stores and other	0 %	2 %
Total Company	(11 %)	0 %

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

Other sales metrics were as follows:

	Three Months Ended	
	March 30, 2024	April 1, 2023
Average sales per store [(1)] (in thousands)	$ 2,786	$ 3,239
Average sales per square foot [(1)]	$ 903	$ 1,060
Stores > $2 million in net sales [(2)]	63 %	75 %
Stores > $3 million in net sales [(2)]	23 %	36 %
Average revenue per smart bed unit [(3)]	$ 5,765	$ 5,848

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

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

(3) Represents Total Retail net sales divided by Total Retail smart bed units.

The number of retail stores operating was as follows:

	Three Months Ended	
	March 30, 2024	April 1, 2023
Beginning of period	672	670
Opened	6	12
Closed	(17)	(11)
End of period	661	671

Comparison of Three Months Ended March 30, 2024 with Three Months Ended April 1, 2023

Net sales

Net sales for the three months ended March 30, 2024 of $470 million decreased 11% from $527 million for the same period one year ago. The mattress industry is in a historic recession, while consumer sentiment is improving, consumer purchasing power remains limited, and consumers are scrutinizing their spending.

The net sales change consisted primarily of an 11% comparable sales decrease in Total Retail.

The $56.1 million net sales decrease compared with the same period one year ago was comprised of the following: (i) a $44.3 million decrease in Retail comparable net sales; (ii) a $12.6 million decrease from online, phone and chat; slightly offset by (iii) a $ 0.8 million increase from net store openings and other. Total Retail smart bed unit sales decreased 9% compared with the prior year. Total Retail average revenue per smart bed unit decreased by 1% to $5,765, compared with $5,848 in the prior-year period.

Gross profit

Gross profit of $276 million for the three months ended March 30, 2024 decreased by $34 million, or 11%, compared with $310 million for the same period one year ago. The gross profit rate decreased to 58.7% of net sales for the three months ended March 30, 2024, compared with 58.9% for the prior-year comparable period.

The current-year gross profit rate decrease of 0.2 ppt. was mainly due to: (i) product mix of our FlexFit smart adjustable bases, which pressured the rate by 1.3 ppt.; (ii) partly offset by improvement in commodity prices and operating efficiencies, increasing the rate by 1.0 ppt. In addition, the gross profit rate may fluctuate from quarter to quarter due to a variety of other factors, including changes in warranty expenses, return and exchange costs, manufacturing and supply chain operations and performance-based incentive compensation.

Sales and marketing expenses

Sales and marketing expenses for the three months ended March 30, 2024 were $209 million, or 44.3% of net sales, compared with $230 million, or 43.8% of net sales, for the same period one year ago. The current-year sales and marketing expenses rate increase of 0.5 ppt. was primarily due to the deleveraging impact of a 11% net sales decline. Media spend was 8% lower year-over-year.

General and administrative expenses

General and administrative (G&A) expenses totaled $39 million, or 8.3% of net sales, for the three months ended March 30, 2024, compared with $39 million, or 7.5% of net sales, in the prior-year period. The $0.3 million decrease in G&A expenses consisted mainly of a $2.3 million decrease in employee compensation on lower headcount, largely offset by an increase in miscellaneous other expenses, which benefited during the same period one year ago from legal and insurance settlements of $1.8 million. The G&A expenses rate increased by 0.8 ppt. in the current-year period, compared with the same period one year ago due to the items discussed above and the deleveraging impact of lower net sales.

Research and development expenses

Research and development (R&D) expenses decreased to $12 million for the three months ended March 30, 2024, compared with $14 million with the same period last year primarily due to lower headcount and outside services. While the Company’s consumer innovation pipeline remains robust, it is re-prioritizing R&D resources in this highly constrained environment.

Interest expense, net

Interest expense, net increased to $12 million for the three months ended March 30, 2024, compared with $9 million for the same period one year ago. The $3 million increase was mainly driven by a higher weighted-average interest rate compared with the same period one year ago.

Restructuring Costs

In the fourth quarter of 2023, the Company initiated cost reduction actions to reduce operating expenses and accelerate gross margin initiatives, and recognized $15.7 million of restructuring costs in that quarter. In addition to the costs incurred in 2023, the Company incurred an additional $10.6 million of restructuring costs in the first quarter of 2024. Charges incurred related to this initiative were comprised of contract termination costs, severance and employee-related benefits, professional fees and other, and asset impairment charges and are included in the restructuring costs line in the Company's consolidated statement of operations. The Company expects an additional $3 million of restructuring costs to be incurred throughout the remainder of 2024.

Income tax expense

Income tax expense totaled $0.7 million for the three months ended March 30, 2024, compared with $5 million for the same period last year. The change in income tax expense was primarily due to the impact of discrete tax expenses and (loss) income before income taxes levels. Discrete tax expense, primarily stock-based compensation tax shortfalls, was $2.2 million for the three months ended March 30, 2024, compared to $0.8 million for the same period last year.

Liquidity and Capital Resources

Managing liquidity and capital resources is an important part of the Company's commitment to deliver superior shareholder value over time. The Company's primary sources of liquidity are cash flows provided by operating activities and cash available under its $682.5 million revolving credit facility, as amended. As of March 30, 2024, the Company does not have any off-balance sheet financing other than its $7 million in outstanding letters of credit. The cash generated from ongoing operations and cash available under the revolving credit facility are expected to be adequate to maintain operations, and fund anticipated expansion, strategic initiatives and contractual obligations such as lease payments and capital commitments for new retail stores for the foreseeable future.

Changes in cash and cash equivalents during the three months ended March 30, 2024 primarily consisted of $34 million of cash provided by operating activities, offset by a $21 million decrease in short-term borrowings which included a reduction of $16 million in the revolving credit facility, $9 million of cash used to purchase property and equipment and $3 million of cash used to issue notes receivable.

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
Total cash provided by (used in):		
Operating activities	$ 33.7	$ 18.6
Investing activities	(12.3)	(15.6)
Financing activities	(22.0)	(3.4)
Net decrease in cash and cash equivalents	$ (0.5)	$ (0.3)

Cash provided by operating activities for the three months ended March 30, 2024 was $34 million, compared with $19 million for the three months ended April 1, 2023. Significant components of the year-over-year change in cash provided by operating activities included: (i) a $17 million fluctuation in inventory due to lower sales volumes and operational improvements; (ii) a $17 million change in prepaid expenses and other assets primarily due to the amount and timing of rebate and rent payments; and (iii) a $6 million fluctuation in customer prepayments; partly offset by (iv) a $19 million decrease in net income for the three months ended March 30, 2024 compared with the three months ended April 1, 2023; and (v) a $7 million fluctuation in income taxes payable.

Net cash used in investing activities to purchase property and equipment was $9 million for the three months ended March 30, 2024, compared with $16 million for the same period one year ago. In addition, the Company issued $3 million of notes receivable during the three months ended March 30, 2024. Net cash used in financing activities was $22 million for the three months ended March 30, 2024, compared with net cash used in financing activities of $3 million for the same period last year. Short-term borrowings decreased by $21 million during the current-year period due to a $16 million decrease in borrowings under the revolving credit facility to

$524 million and a $5 million decrease in book overdrafts, which are included in the net change in short-term borrowings. During the three months ended March 30, 2024, the Company repurchased $1 million of its stock compared with $3 million (based on settlement dates, in connection with the vesting of employee restricted stock awards) during the same period one year ago. The Company made no share repurchases under its Board-approved share repurchase program in either period.

In the second quarter of fiscal 2022, the Company suspended share repurchases under its Board-approved share repurchase program. At March 30, 2024, there was $348 million remaining authorization under the Board-approved $600 million share repurchase program. There is no expiration date governing the period over which the Company can repurchase shares.

At March 30, 2024, the Company had $524 million of borrowings under its revolving credit facility, $7 million in outstanding letters of credit and net liquidity available under the credit facility of $152 million. Total availability under its revolving credit facility was $682.5 million, which amortizes by $2.5 million per quarter through December 2026. At March 30, 2024, the Company’s leverage ratio as defined in the credit agreement was 4.2x versus the permissible net leverage ratio of 5.0x, the weighted-average interest rate on borrowings under the credit facility was 8.4% and the Company was in compliance with all financial covenants.

Non-GAAP Data Reconciliations

Earnings before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)

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

Adjusted EBITDA calculations are as follows (in thousands):

	Three Months Ended		Trailing-Twelve Months Ended	
	March 30, 2024	April 1, 2023	March 30, 2024	April 1, 2023
Net (loss) income	$ (7,482)	$ 11,465	$ (34,234)	$ 46,001
Income tax expense (benefit)	725	5,366	(9,107)	17,437
Interest expense	12,299	9,102	45,892	25,960
Depreciation and amortization	17,145	17,991	71,633	68,934
Stock-based compensation	4,117	4,639	14,333	13,729
Restructuring costs	10,600	—	26,328	—
Asset impairments	—	12	660	204
Adjusted EBITDA	$ 37,404	$ 48,575	$ 115,505	$ 172,265

Free Cash Flow

The Company's "free cash flow" data is considered a non-GAAP financial measure and is not in accordance with, or preferable to, "net cash provided by operating activities," or GAAP financial data. However, the Company is providing this information as it believes it facilitates analysis for investors and financial analysts.

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

	Three Months Ended		Trailing-Twelve Months Ended	
	March 30, 2024	April 1, 2023	March 30, 2024	April 1, 2023
Net cash provided by operating activities	$ 33,745	$ 18,581	$ 6,136	$ 30,161
Subtract: Purchases of property and equipment	9,308	15,556	50,808	65,406
Free cash flow	$ 24,437	$ 3,025	$ (44,672)	$ (35,245)

Non-GAAP Data Reconciliations (continued)

Return on Invested Capital (Adjusted ROIC)

Adjusted ROIC is a financial measure the Company uses to determine how efficiently it deploys its capital. It quantifies the return the Company earns on its adjusted invested capital. Management believes Adjusted ROIC is also a useful metric for investors and financial analysts. The Company computes Adjusted ROIC as outlined below. Its definition and calculation of Adjusted ROIC may not be comparable to similarly titled definitions and calculations used by other companies.

The tables below reconcile adjusted net operating profit after taxes (Adjusted NOPAT) and total adjusted invested capital, which are non-GAAP financial measures, to the comparable GAAP financial measures (in thousands):

	Trailing-Twelve Months Ended	
	March 30, 2024	April 1, 2023
Adjusted net operating profit after taxes (Adjusted NOPAT)		
Operating income	$ 2,550	$ 89,398
Add: Operating lease expense [1]	27,882	26,487
Less: Income taxes [2]	(7,479)	(29,674)
Adjusted NOPAT	$ 22,953	$ 86,211
Average adjusted invested capital		
Total deficit	$ (445,863)	$ (425,047)
Add: Long-term debt [3]	523,800	470,991
Add: Operating lease obligations [4]	424,746	436,939
Total adjusted invested capital at end of period	$ 502,683	$ 482,883
Average adjusted invested capital [5]	$ 505,498	$ 423,287
Adjusted return on invested capital (Adjusted ROIC) [6]	4.5 %	20.4 %

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(1) Represents the interest expense component of lease expense included in the Company's financial statements under ASC 842, *Leases.*

(2) Reflects annual effective income tax rates, before discrete adjustments, of 24.6% and 25.6% for March 30, 2024 and April 1, 2023, respectively.

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

(4) Reflects operating lease liabilities included in the Company's financial statements under ASC 842.

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

(6) Adjusted ROIC equals Adjusted NOPAT divided by average adjusted invested capital.

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

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

Critical Accounting Policies

The Company discusses its critical accounting policies and estimates in *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2023. There were no significant changes in the Company's critical accounting policies since the end of fiscal 2023.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in market-based short-term interest rates that will impact net interest expense. If overall interest rates were one percentage point higher than current rates, annual net income would decrease by $3.9 million based on the $524 million of borrowings under the credit facility at March 30, 2024. The Company does not manage the interest-rate volatility risk of borrowings under the credit facility through the use of derivative instruments.

ITEM 4. CONTROLS AND PROCEDURES

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control

There were no changes in the Company’s internal control over financial reporting during the fiscal quarter ended March 30, 2024, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company’s legal proceedings are discussed in Note 12, *Commitments and Contingencies*, Legal Proceedings, in the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) – (b) Not applicable.
(c) Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased[(1)(2)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(1)]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[(3)]
December 31, 2023 through January 27, 2024	790	$ 13.47	—	$ 348,071,000
January 28, 2024 through February 24, 2024	668	$ 9.87	—	$ 348,071,000
February 25, 2024 through March 30, 2024	40,902	$ 13.53	—	$ 348,071,000
Total	42,360	$ 13.47	—	$ 348,071,000

(1) The Company did not purchase any shares under its Board-approved $600 million share repurchase program (effective April 4, 2021), during the three months ended March 30, 2024.

(2) In connection with the vesting of employee restricted stock grants, the Company repurchased 42,360 shares of its common stock at a cost of $0.6 million during the three months ended March 30, 2024.

(3) There is no expiration date governing the period over which the Company can repurchase shares under its Board-approved share repurchase program. Any repurchased shares are constructively retired and returned to an unissued status.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plan and Non-rule 10b5-1 Trading Arrangement Adoptions, Modifications and Terminations

The Company’s Board Chair, Chief Executive Officer and President , Shelly Ibach , adopted a trading arrangement for the sale of securities of the Company’s common stock (a Rule 10b5-1 Trading Plan) that satisfied the affirmative defense conditions of Securities Exchange Act Rule 10b5-1(c). Ms. Ibach’s Rule 10b5-1 Trading Plan was adopted on February 26, 2024 , provides for the sale of up to 65,000 shares of common stock pursuant to the terms of the plan, and expires on November 28, 2025 or upon the earlier termination of the plan or sale of all shares subject to the plan.

None of the Company’s other directors or officers adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement,” as defined in Item 408(c) of SEC Regulation S-K, during the quarter ended March 30, 2024.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1*†	Form of Performance Adjusted Restricted Stock Unit Award Agreement (CEO and Executive Team) under the Sleep Number Corporation 2020 Equity Incentive Plan
10.2*†	Sleep Number Annual Incentive Plan (AIP) Effective December 31, 2023
31.1*	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2*	Certification of CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed Herein.

† Management contract or compensatory plan or arrangement.

SIGNATURES

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

SLEEP NUMBER CORPORATION

(Registrant)

Dated: May 7, 2024

By: /s/ Shelly R. Ibach

Shelly R. Ibach

Chief Executive Officer

(principal executive officer)

By: /s/ Joel J. Laing

Joel J. Laing

Chief Accounting Officer

(principal accounting officer)

PERFORMANCE ADJUSTED
RESTRICTED STOCK UNIT AWARD AGREEMENT
(CEO and Executive Team)

THIS AGREEMENT is entered into and effective as of __________, 20__ (the “Date of Grant”), by and between Sleep Number Corporation (the “Company”) and ____ (the “Grantee”).

Unless defined in this Agreement, capitalized terms used in this Agreement shall have the meanings established in the Sleep Number Corporation 2020 Equity Incentive Plan (the “Plan”).

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

Accordingly, the parties agree as follows:

1. Grant of Award Units and Performance Adjustments.

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

1.2 Performance Adjustments. The number of Award Units granted hereunder is subject to adjustment based on the Company’s level of achievement versus annual Net Sales goals and annual NOP goals for the 20__, 20__, and 20__ fiscal years (the “Performance Period”). (For purposes of this Agreement, “NOP” will be defined as Net Operating Income). The Net Sales growth goals and NOP growth goals will be equally weighted.

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

		Net Sales		**NOP**	
	Payout Multiple	Percent of AOP * achieved for 20__	Annual growth achieved for 20__ and 20__	Percent of AOP* achieved for 20__	Annual growth achieved for 20__ and 20__
Threshold	0.5X	__%	__%	__%	__%
Target	1.0X	__%	__%	__%	__%
Maximum	2.0X	__%	__%	__%	__%

* The Company’s Annual Operating Plan (AOP) as approved by the Board of Directors for 20__.

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

(a) The Company’s actual percent achievement of AOP for 20__ or achievement of annual growth for 20__ and 20__ will be measured for each of the two (2) performance measures and for each of the three (3) fiscal years of the Performance Period;

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

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

For example, if the annual Net Sales growth rate achieved for 20__ is __%, the multiple for that performance goal for that year will be 1.0X; and if the annual NOP growth rate achieved for 20__ is __%, the multiple for that performance goal for that year will be 2.0X. Similar multiples will be determined for each performance goal and for each of the following fiscal years. The resulting six (6) payout multiples will then be averaged to determine the final payout multiple. This final payout multiple times the number of Award Units originally granted results in the number of Adjusted Award Units that would vest, subject to all of the other proration and vesting provisions set forth in this Agreement.

The “Adjusted Award Units” will be subject to reduction for failure to generate Return on Invested Capital (“ROIC”) that exceeds Weighted Average Cost of Capital by at least ___ basis points (“bps”), as outlined in the table below. The measurement will be based on an average of the basis points difference between annual ROIC and WACC for the three fiscal years 20__, 20__, and 20__.

ROIC Basis Points difference versus WACC (e.g., ROIC of 12% vs. WACC of 10% = +200 bps)	**Reduction to Final Payout**
0 bps or lower (i.e., ROIC at or below WACC)	-20% of target award
__ to __ bps	-15% of target award
__ to __ bps	-10% of target award
__ to __ bps	-5% of target award
__ bps or greater	No reduction

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

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

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

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

2. Grant Restriction.

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

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

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

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

(c) Termination Due to Retirement.

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

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

Agreement relating to all Award Units with respect to which the Restrictions have not lapsed will immediately terminate and be forfeited without notice of any kind.

(iii) In the event that the Grantee's employment or other service with the Company and all Subsidiaries is terminated prior to the end of the Vesting Period by reason of the Grantee's retirement at or beyond age sixty (60) and the Grantee has five (5) or more years of service with the Company prior to retirement, the Grantee will become fully vested in the Award Units pending completion of the Performance Period and final determination of the Adjusted Award Units if the following criteria are met: Grantee provides written notice of Grantee's intention to retire three months before Grantee's actual retirement date. Provided, however, and only to the extent permitted by applicable law, that as a condition of Grantee becoming vested in the Award Units at completion of the Performance Period, Grantee cannot have engaged in competitive activities to Company's business in the United States during the period between the Grantee's termination date and the end of the Vesting Period, up to any duration limitation under applicable law.

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

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

3. Issuance of Shares.

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

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

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

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

4. Rights of Grantee.

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

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

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

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

7. Subject to Plan. The Award and the Award Units granted pursuant to this Agreement have been granted under the Plan and, except as otherwise expressly provided in this Agreement, are subject to all of the terms and conditions of the Plan. In addition, the Grantee, by execution hereof, acknowledges having received a copy of the Plan and acknowledges that the Company, or a third party vendor designated by the Company, may deliver to the Grantee any documents related to the Grantee's participation in the Plan by electronic means, including through email, the Company's website, and through the website of the third party vendor designated by the

Company. The provisions of this Agreement will be interpreted as to be consistent with the Plan, and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is not authorized under the Plan, the terms of the Plan will prevail.

8. Forfeiture, Clawback or Recoupment. This Award is subject to the forfeiture and clawback provisions pursuant to the Plan. Additionally, the Grantee may be subject to the Company's policy regarding clawback and forfeiture of certain compensation, as in effect at such time. In addition to the other rights of the Committee under the Plan, if Grantee is determined by the Committee, acting in its sole discretion, to have taken any action that would constitute Adverse Action or Cause or that is subject to any other or additional "clawback," forfeiture, or recoupment policy adopted by the Company, either prior to or after the date of this Agreement, or to have violated the Non-Compete Agreement, as defined in Section 1.3, (i) all of Grantee's rights under the Plan and any agreements evidencing an award granted under the Plan, including this Agreement evidencing this Award, then held by Grantee shall terminate and be forfeited upon the effectiveness of such Committee action, and without notice of any kind, and (ii) the Committee, in its sole discretion may require Grantee to surrender and return, transfer, or assign to the Company all or any portion of the shares of Common Stock received, or to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by Grantee or Grantee's affiliate, during the period beginning two (2) years prior to your termination of employment or service with the Company, in connection with any awards granted under the Plan, including this Award, or any shares of Common Stock issued upon the exercise or vesting of any awards, including this Award. This Section 8 shall not apply and shall automatically become void *ab initio* following a Change of Control.

9. Miscellaneous

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

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

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

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

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

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

SLEEP NUMBER CORPORATION

____
Shelly Ibach
President and CEO

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

GRANTEE

____
(Signature)

____
(Name and Address)

____

____

ATTACHMENT A: Definition for the Company's Weighted Average Cost of Capital (WACC)

Formula:

$$WACC = \frac{D}{V} r_D \,(1 - T) + \frac{E}{V} r_E$$

D = Market value of all debt
E = Market value of all common stock
V = *D* + *E* = Market value of the entire firm
r*D* = Cost of debt
r*E* = Cost of equity
T = Marginal corporate tax rate

WACC is an approximation of the average rate of return a company expects to compensate all of its different investors. The WACC formula and key assumptions used in the Company's WACC calculation are outlined below:

- The market value of all debt reflects the capitalization of our operating leases as debt, plus any other outstanding debt. We calculate our capitalized operating lease obligations as part of our Return on Invested Capital (ROIC) calculation. The market value of all debt (including capitalized operating lease obligations) for each fiscal year within the Performance Period will equal the amounts included in our publicly reported ROIC calculations.
- The market value of all common stock for each fiscal year within the Performance Period is calculated based on the 5-quarter average (the first day of the first quarter and the last day of each of the 4 quarters) of our common shares outstanding multiplied by the respective closing share price at the end of each quarter.
- Cost of debt is the effective interest rate a company would pay for its debt. Our research indicates our debt would receive a rating of approximately BB (high-yield corporate debt). We base our cost of debt on the JP Morgan Chase Domestic High Yield 7-10 Year Corporate Bond Index rates computed on a five-quarter average (the first day of the first quarter and the last day of each of the 4 quarters) for each fiscal year within the Performance Period.
- Cost of equity

    Risk-free rate is the theoretical rate of return of an investment with no risk of financial loss. In practice, a bond issued by a government with a negligible risk of default is used. We base our risk-free rate on the five quarter average (the first day of the first quarter and the last day of each of the four quarters) 10-year U.S. treasury bill rate during each fiscal year within the Performance Period

    Risk premium is the return in excess of the risk-free rate that an investment (as adjusted for risk) is expected to yield. We use the risk premium by industry/sector as annually reported by the Stern School of Business at New York University. For the purposes of this calculation, we use the average of the annual risk premium estimates for the Furniture/Home Furnishings, Retail (Special Lines), and Retail (Building Supply) industry sectors for the period that most closely corresponds to each fiscal year within the Performance Period

- Marginal corporate tax rate is our effective tax rate before discrete adjustments for each fiscal year within the Performance Period

If any benchmark or index referenced above is unavailable at the time of the performance measurement, we will substitute with a substantially similar benchmark or index approved by the Compensation Committee.

Sleep Number Annual Incentive Plan (AIP)

Effective December 31, 2023

Introduction

The Annual Incentive Plan (the "AIP" or the "Plan") is a variable compensation program that rewards eligible team members ("Participants") with an incentive opportunity tied to Sleep Number Corporation ("Company" or "Sleep Number") results. The AIP opportunity is part of Sleep Number's overall total rewards program that is designed to be competitive, comprehensive, flexible, and performance based.

This Plan document outlines the terms and conditions for the AIP effective December 31, 2023, and as approved by the Management Development and Compensation Committee of the Sleep Number Board of Directors (the "Committee"). The Company retains the discretion to modify, amend or change the terms of the AIP at any time, and will determine and approve the incentive payouts earned by eligible team members in connection with Company performance.

Eligible Team Members

Full-time and part-time team members (excluding temporary team members and interns) who work in areas of the business the Company has designated as eligible for this Plan. Team members are eligible for this Plan if AIP is shown inWorkday (under the "Compensation" heading) as their incentive plan. Team members will also be able to see currentTarget Incentive Opportunity (as a percent of Eligible Earnings) in Workday. Team members who do not have AIP listed as their incentive plan in Workday, are not eligible for this Plan. Please read this document for more information on Plan rules regarding eligibility for incentive payments under the Plan.

Newly hired, AIP eligible Participants, become eligible for participation in AIP on the first day of employment with the Company.

Overview of the Plan

The AIP is a variable compensation program tied to Company performance as measuredby:

- Adjusted EBITDA, which is earnings before interest, taxes, depreciation, and amortization, adjusted for certain one-time expenses (as detailed in quarterly and annual financial filings). EBITDA is a good indicator of the Company's financial performance and our ability to generate cash flow from operating activities, an important source of shareholder value creation.

- New for 2024 - performance against a Shared Strategic Objective. For 2024, we will be introducing the shared strategic objective of benefits realized through our Fit for Growth program and initiatives. Fit for Growth initiatives strategically and rigorously align our resources, optimize our processes, and foster a culture of continuous improvement and innovation. Our performance against targets for these initiatives will have the ability to modify AIP payouts upwards, but cannot modify payouts downwards.

The Annual Incentive Payments under the Plan are based on the components listed below.

Your Eligible Earnings	x	Target Incentive Opportunity Percent (a percent of Eligible Earnings)	x	Percent of Target Payout (earned for adjusted EBITDA performance vs. goals x Shared Strategic Objective Modifier)	=	Annual Incentive Earned for the Fiscal Year
Your Eligible Earnings (as defined under the Plan – see the next page) for the fiscal year.		*Your Target Incentive Opportunity (percent of Eligible Earnings, as listed in your profile information in Workday).*		*The payout as a percent of target earned for Company EBITDA performance vs. goals (can be up to 200% of target).*		

Percent of Target Payout Determination

Adjusted EBITDA Performance

Each year a threshold, target and maximum adjusted EBITDA performance is set and aligned to % of Target Payout opportunities under the plan.

- Threshold – this is the minimum adjusted EBITDA performance that will result in a payout under the plan. For 2024, meeting this threshold performance will result in a payment of 25% of the target incentive opportunity. Adjusted EBITDA performance below this level will result in no payment under the plan.
- Target – this represents the adjusted EBITDA target set in our Annual Operating Plan (AOP). Performance at this level will result in 100% of the target incentive opportunity.
- Maximum – this represents stretch adjusted EBITDA performance that will result in 200% of the target incentive opportunity.
- Final payout percent of target will be interpolated between the points noted below.

	Threshold	Target (@AOP)	Maximum
% of Adj Target Payout	25%	100%	200%
% of AOP Adj EBITDA Achieved	77%	100%	130%

Shared Strategic Objective Modifier

New for 2024, there will be an opportunity to earn a higher payout based on our achievement of benefits through the Fit for Growth program and initiatives. A multi-year target has been identified that will allow for the payout to be modified upwards by up to 25%.

Adjusted EBITDA % of Target	x	Strategic Modifier Performance	=	Final Percent of Target Payout

First Half Progress Payment (excluding CEO and Executive Team)

The AIP includes an opportunity to receive a progress payment if the Company achieves or exceeds EBITDA goals for the first half of the fiscal year (excluding CEO and Executive Team). The progress payment is equal to 50% of the AIP Target Incentive Opportunity for the first half of the year (based on Eligible Earnings received in the first half of the year). If the progress payment is earned and paid out, it is subtracted from the annual payout earned and paid out following the end of the fiscal year. By having this opportunity for a progress payment in our AIP, it reinforces the importance of starting out the year with strong first half performance.

Annual Incentive Earned	*Minus*	**First Half Progress Payment (July 2024)**	=	**Annual Incentive Payment (Q1 2025)**
Earned for the entire fiscal year based on your Eligible Earnings, Target Incentive, and Company performance		*Equals 50% of Target Incentive Opportunity for the first half of the year* *Typically paid by the end of July of the fiscal year*		*Annual incentive earned for the fiscal year minus the first half progress payment (if any)* *Typically paid by the end of February following the end of the fiscal year*

The following is an example of a team member who earned $60,000 and had a 5% target incentive. In this example, the First Half Progress Payment was paid out and it was subtracted from the Annual Incentive Payment earned for the year as calculated following the end of the fiscal year end (example assumes that a 110% of target payout was earned for the year).

EXAMPLE	FIRST HALF
FIRST HALF PROGRESS PAYMENT	
Eligible Earnings Received	$30,000
Target Incentive (% of earnings)	5%
Target Incentive ($ amount)	$1,500
Amount Paid Out	$750

The First Half Progress Payment is equal to 50% of the Target Incentive Opportunity for the first half of the year (in this example 50% x $1,500 = $750)

EXAMPLE	FULL YEAR
ANNUAL INCENTIVE PAYMENT	
Eligible Earnings Received	$60,000
Target Incentive (% of earnings)	5%
Target Incentive ($ amount)	$3,000
Adjusted EBITDA % of Target Payout	110%
Shared Strategic Objective Modifier	x 10%
Final Target Payout % (Adj EBITDA x Modifier)	121%
Annual Incentive Earned	$3,630
Less First Half Progress Payment	-$750
Amount Paid Out	$2,880

The Annual Incentive Payment is earned with full year performance. In this example, the payout earned based on Adj. EBITDA performance was 110% and we earned a 10% modifier based on strategic objective performance, with the finaly payout of 121%, resulting in an annual incentive for the full year of $3,630 ($3,000 x 121% = $3,630). Subtracting the First Half Progress Payment of $750, the annual amount paid would be $2,880.

Eligible Earnings

Generally, for purposes of this Plan, "Eligible Earnings" means the total base pay earnings (including both straight time and overtime) paid to Participants by Sleep Number during the fiscal year, while a participant in this plan, and before any payroll deductions or tax withholdings. This includes base pay earnings paid for paid time off (including vacation and sick time) and holiday pay. Other payments received from the Company or its team member benefit plans are not considered Eligible Earnings under this Plan (except as required by law) including, but not limited to, expense reimbursement payments and team member discounts.

Target Annual Incentive

The Plan's Target Incentive Opportunity for Participants is established based on grade level. Participants can look up their Target Incentive Opportunity in Workday under the "Compensation" heading. Target Incentive Opportunity is expressed as a percent of Eligible Earnings and represents the Annual Incentive Payment if the Company achieves its annual performance goal for a 100% of target payout. If a Participant's Target Incentive Opportunity changes during the fiscal year (e.g., due to promotion), the Target Incentive Opportunity will be a combination of old and new target incentive, prorating for the portion of the fiscal year that was actually worked at either the old or new target incentivelevel.

Payment Eligibility Requirements

Except for the special termination reasons described below and where prohibited by law, a Participant must be employed with the Company through the following dates to be eligible for an incentive payment under the Plan:

- For the First Half Progress Payment, the Participant must be employed as of the end of the last day of the secondfiscal quarter.

- For the Annual Incentive Payment, the Participant must be employed as of the end of thelast day of the fiscalyear.

Subject to the Special Terminations section below, if a Participant terminates employment and is rehired by the Company during the fiscal year, the Participant's AIP will only be based on Eligible Earnings paid to the Participant after the rehire date. Also, Participants who transfer during the year to a position that is AIP eligible, their Eligible Earnings for purposes of the AIP calculation will only be those earnings from the date of the transfer forward.

Payment Timing

The following is the typical timing for incentive payouts under the Plan, but this timing can vary at the Company's discretion.

- For the First Half Progress Payment, it is generally made following the fiscal second quarter earnings release when first half financial results for the Company have been determined and disclosed.

- For the Annual Incentive Payment, it is generally made following the fiscal fourth quarter earnings release when the annual financial results for the Company have been determined and disclosed, no later than March 15, 2025.

Participants have no legal, contractual, or equitable right to receive any incentive payment under the Plan prior to the payment date determined by the Committee.

Special Termination of Employment Provisions

If a Participant dies during the fiscal year and prior to the Participant's termination of employment with the Company, the Participant's estate will receive a prorated Annual Incentive Payment calculated by assuming a target payout of 100% and based on the Participant's Target Incentive Opportunity and Eligible Earnings paid to the Participant during the fiscal year as of the date of death. Payment will be made as soon as administratively practical following the Participant's death (and no later than March 15 of the following fiscal year). The amount of any First Half Progress Payment made to the Participant will be deducted from the prorated Annual Incentive Payment made to the Participant's estate.

If a Participant becomes permanently disabled – meaning for purposes of this Plan that the Participant is entitled to disability income benefits under the Company's long-term disability plan – the Participant may receive a prorated Annual Incentive Payment calculated by assuming a target payout of 100% and based on the Participant's Target Incentive Opportunity and Eligible Earnings paid to the Participant during the fiscal year up to the date Participant became disabled. Payment will be made within 90 days after the plan administrator of the Company's long-term disability plan has determined the Participant is entitled to disability income benefits under the long-term disability plan (and no later than March 15 of the following fiscal year). The amount of the First Half Progress Payment made to the Participant (if any) will be deducted from the prorated Annual Incentive Payment.

If a Participant terminates employment during the fiscal year, is at least age fifty-five (55) and has completed at least five (5) years of continuous service with the Company prior to termination, the Participant may be eligible for a prorated Annual Incentive Payment (if one is made) based on the Participant's Eligible Earnings paid to the Participant during the fiscal year through the date of termination, subject to the following exception. If a Participant is entitled to receive a prorated annual incentive payment under any other Sleep Number plan during the fiscal year, the Participant is not eligible to receive a prorated First Half Progress Payment or Annual Incentive Payment under the terms of this paragraph. Participants will otherwise not be entitled to a prorated AIP, except where required by law. The prorated Annual Incentive Payment will be based on the Participant's Target Incentive Opportunity and the actual percent of target payout earned for Company EBITDA performance vs. goals and will be paid to the Participant at the same time as other Plan Participants. If the date of termination occurs within the first half of the fiscal year, the Participant may be entitled to a prorated First Half Progress Payment, if one is made, on the same basis as all other Plan Participants. The amount of the First Half Progress Payment made to the Participant (if any) will be deducted from the Annual Incentive Payment.

Other Terms and Conditions

This Plan is subject to the terms and conditions as summarized in this Plan and in the Sleep Number Corporation 2020 Equity Incentive Plan. Sleep Number Corporation has the authority to take such actions as it deems necessary and advisable with respect to the execution and administration of this Plan including, without limitation, the full and exclusive discretionary power and authority to: (a) construe and interpret the terms of this Plan and the rights of any Participant or anyone claiming the right to be treated as a Plan Participant, (b) determine the amounts payable to any Plan Participant including, without limitation, the full power and authority to reduce or eliminate the amount payable to any Participant, (c) modify, amend or terminate this Plan or any rights of any Participant or other individual claiming a right under the Plan at any time and (d) delegate to one or more of its members or to one or more officers of the Companysuch authority, duties or powers with respect to the execution and administration of this Plan; provided, the Company may not take any action or exercise any discretion after the end of the Company's fiscal year to reduce the unpaid amount of a Participant's Annual Incentive Payment that was unconditionally earned as of the end of the Company's fiscal year. All decisions of the Company with respect toany aspect of the Plan including, without limitation, the administration of the Plan, the interpretation or enforcement of any term or condition of the Plan or the determination of any amount payable to any Plan Participant (or anyone else claiming a right to payment under the Plan) shall be final, conclusive, and binding for all purposes.

Only Sleep Number team members are eligible for this Plan. Accordingly, an individual who is classified as an independent contractor, leased employee, or as any other status in which the individual is not classified as a common law employee of Sleep Number or the affiliate at the time services are performed is not an eligible team member under this Plan. No judicial or administrative reclassification or reclassification by Sleep Number or the affiliate will be applied to grant retroactive eligibility to any individual under this Plan.

Nothing contained in this Plan shall be construed as a contract with or guaranty to any Participant or other team member of continued employment with Sleep Number Corporation or any of its subsidiaries for any period of time, at any grade level or at any rate of compensation. All team members are team members "at will" whose employment is subject to termination at any time with or without cause. Nothing in this Plan will interfere with or limit in any way the right of Sleep Number Corporation or any subsidiary to terminate the employment or service of any team member at any time, nor confer upon any team member any right to continue in the employment or service of Sleep Number Corporation or any subsidiary. Any incentive compensation payable pursuant to this Plan will be subject to the terms and conditions of the Sleep Number Corporation Clawback and Forfeiture Policy, unless prohibited by law.

The Company may withhold and deduct from any amount payable hereunder to any participant all amounts the Company reasonably determines are required, including any amounts necessary to satisfy any and all foreign, federal, state and local withholding and employment-related tax requirements attributable to any amount payable hereunder where permitted by law.

The Plan participant agrees that the validity, construction, interpretation, administration and effect of the Plan and any rules, regulations and actions relating to the Plan will be governed by and construed exclusively in accordance with the laws of the State of Minnesota, notwithstanding the conflicts of laws principles of any jurisdiction and the Plan participant consents to the jurisdiction and venue of the federal and state courts located in the State of Minnesota. California team members may elect to void this provision, to the extent it is construed to violate Cal. Labor Code § 925.

The Plan as described in this document is effective December 31, 2023, and only applies to fiscal years of Sleep Number Corporation commencing on or after this date. Nothing contained in this document should be construed as an indication of the Plan being in effect or applying with respect to any other period.

Exhibit 31.1

Certification by Chief Executive Officer

I, Shelly R. Ibach, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Sleep Number Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2024

/s/ Shelly R. Ibach

Shelly R. Ibach

Chief Executive Officer

Exhibit 31.2

Certification by Chief Financial Officer

I, Francis K. Lee, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Sleep Number Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2024

/s/ Francis K. Lee

Francis K. Lee

Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Sleep Number Corporation (the "Company") on Form 10-Q for the period ended March 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Shelly R. Ibach, Chief Executive Officer of the Company, solely for the purposes of 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, does hereby certify, to her knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2024

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

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

Exhibit 32.2

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

In connection with the Quarterly Report of Sleep Number Corporation (the "Company") on Form 10-Q for the period ended March 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Francis K. Lee, Executive Vice President and Chief Financial Officer of the Company, solely for the purposes of 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, does hereby certify, to his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2024

/s/ Francis K. Lee
Francis K. Lee
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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