Proxy Statement and Annual Report

Select Comfort Corporation

2017 Annual Meeting

Dear Shareholders,

Sleep Number's long-term orientation, mission-driven culture and focus on our customer's experience are creating value for our shareholders. Over the past five years we have invested $425 million to transform the company, establish our innovation leadership and strengthen our competitive advantages. The coordinated investments we have made in digital capabilities, stores, products, technologies and infrastructure have made us a stronger competitor with superior products and customer experiences. These investments culminate in 2017 as we launch the most significant innovation in our thirty-year history: Sleep Number 360™ smart beds.

We are capitalizing on momentous consumer trends – ranging from what consumers value in their lives to how they shop and what they expect from brands. This is an exciting time for companies like Sleep Number that have digital at their core and the ability to connect with customers from that first engagement to a life-long relationship. Our consumer innovation strategy has positioned us to succeed in this digitalized, fast-changing world.

We believe sleep is the center of a healthy mind, body and soul – and that great sleep should be smart and effortless. Our Sleep Number 360 smart beds sense what a person needs for their best sleep and automatically adjust the bed's firmness, comfort and support – their Sleep Number® setting – to keep each person sleeping blissfully, all night long. The Sleep Number 360 smart bed is powered by SleepIQ® technology, which tracks your biometric sleep data, provides individualized sleep insights and connects to your apps and smart devices. The bed can even warm your feet to help you fall asleep faster, and can help relieve common, mild snoring. Our new product line was recognized with 13 awards at CES this year – including being named the Best of Innovation Honoree in the Home Appliances category. The demand potential and pricing power associated with our Sleep Number 360 smart beds – and our direct-to-consumer distribution – are significant growth drivers for our brand.

Our innovations, new technology platforms and improved operations are now delivering greater efficiency and a superior customer experience. We expect accelerated financial returns and free cash flow through our more efficient vertical business model. At our November 2016 Investor Conference, we outlined our multi-year path to achieve our goal of $2.75 in earnings per share by 2019.

The year 2016 was one of progress and recovery for Sleep Number. We delivered 8% net sales growth in fiscal 2016 and a 13% increase in earnings per share, despite a worsening consumer environment in the back half of the year. We generated a 40% increase in operating cash flows to a record $152 million, increased our store base 11%, and returned $125 million of cash to shareholders through share repurchases. Our full-year ROIC of 12.2% exceeded our weighted average cost of capital by 54%.

Following our ERP system implementation recovery, our customer experience and operational improvements – including in-store scheduling of home delivery and improved inventory control – led to margin expansion. Operating our vertically integrated business on one technology platform helps us achieve greater customer convenience, efficiency and scalability.

In one of our most demanding years ever, our talented team put forth extraordinary effort and remained engaged and committed. Their dedication to our mission of improving lives by individualizing sleep experiences is the reason we were again ranked "Highest in Customer Satisfaction with Mattresses" by J.D. Power in 2016 – the second year in a row.

We are all excited about changing lives with our revolutionary Sleep Number 360 smart beds and the opportunities we have to expand our market share and leverage our business model. We are executing the consumer innovation strategy that our board of directors and management team believe will create superior shareholder value for the long term. With our benefit-driven products – and a more convenient, connected customer experience – we expect to become a more broadly relevant and scalable brand in 2017 and beyond. We envision a future where everyone will sleep on a smart bed!

On behalf of all of us at Sleep Number, we thank our shareholders for your ongoing support and confidence in our future.

Sleep well, dream big,

Shelly Ibach

Shelly Ibach, Sleep Number® setting 40, average SleepIQ® score of 82
President and Chief Executive Officer

sleep number®

9800 59th Avenue North
Plymouth, Minnesota 55442

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
May 17, 2017

TO THE SHAREHOLDERS OF SELECT COMFORT CORPORATION:

Select Comfort Corporation will hold its Annual Meeting of Shareholders at **8:30 a.m.** Central Time on **Wednesday, May 17, 2017**. The meeting will be conducted completely as a virtual meeting via the Internet at **www.virtualshareholdermeeting.com/scss2017**. The purposes of the meeting are to:

1. Elect four persons to serve as directors for three-year terms;

2. Cast an advisory vote to approve executive compensation;

3. Cast an advisory vote to approve the frequency of future advisory votes on executive compensation; and

4. Cast an advisory vote to ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the 2017 fiscal year ending December 30, 2017.

Shareholders of record at the close of business on March 21, 2017 will be entitled to vote at the meeting and any adjournments thereof. Your vote is important. Please be sure to vote your shares in favor of the Board of Directors' recommendations in time for our May 17, 2017 meeting date. Your attention is directed to the Proxy Statement for a more complete statement of the matters to be considered at the meeting.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDERS' MEETING TO BE HELD ON MAY 17, 2017: The Proxy Statement and Annual Report for the year ended December 31, 2016 and related materials are available at *www.sleepnumber.com/investor-relations*.

By Order of the Board of Directors,

Mark A Kimball

Mark A. Kimball
Senior Vice President,
Chief Legal and Risk Officer and Secretary

Plymouth, Minnesota April 4, 2017

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As used in this Proxy Statement, the terms "we," "us," "our," the "company" and "Select Comfort" mean Select Comfort Corporation and its subsidiaries and the term "common stock" means our common stock, par value $0.01 per share.

9800 59th Avenue North
Plymouth, Minnesota 55442

PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS

May 17, 2017

FREQUENTLY ASKED QUESTIONS ABOUT THE MEETING AND VOTING

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Select Comfort Corporation for use at the 2017 Annual Meeting of Shareholders.

When is the Annual Meeting and who may attend?

The Annual Meeting will be held at 8:30 a.m. Central Time on Wednesday, May 17, 2017. The meeting will be conducted completely as a virtual meeting via the Internet. Shareholders may attend the meeting, vote their shares and submit questions electronically during the meeting via live webcast by visiting **www.virtualshareholdermeeting.com/scss2017**. Our 2017 Annual Meeting will be held completely online to enable greater participation and improved communication, and to provide cost savings for shareholders and the company. Shareholders will need the 16-digit control number included in Notice of Internet Availability of Proxy Materials, on the proxy card or in the instructions that accompanied the proxy materials to enter the annual meeting and to vote their shares at the meeting.

Who is entitled to vote?

Shareholders of record at the close of business on March 21, 2017 (the "Record Date") are entitled to vote at the meeting. As of the Record Date, there were 41,804,642 shares of common stock outstanding. Each share is entitled to one vote on each matter to be voted on at the Annual Meeting. Shareholders are not entitled to cumulative voting rights.

What is the difference between "Shareholders of Record" and "Beneficial Owners"?

If your shares are registered in your name in the records maintained by our stock transfer agent, you are a "Shareholder of Record." If you are a Shareholder of Record, notice of the meeting was sent directly to you.

If your shares are held in the name of your bank, broker, nominee or other holder of record, your shares are held in "street name" and you are considered the "Beneficial Owner." Notice of the meeting has been forwarded to you by your bank, broker, nominee or other holder of record, who is considered, with respect to those shares, the Shareholder of Record. As the Beneficial Owner, you have the right to direct your bank, broker, nominee or other holder of record how to vote your shares by using the voting instructions you received.

If you are a Beneficial Owner and you do not give instructions to the organization holding your shares, then that organization cannot vote your shares and the shares held by that organization will not be considered as present and will not be entitled to vote on any matter to be considered at the Annual Meeting.

How can I receive proxy materials?

We are furnishing proxy materials to our shareholders primarily via the Internet, instead of mailing a full set of printed proxy materials to each shareholder. On or about April 4, 2017, we will begin mailing to certain of our shareholders a Notice of Internet Availability of Proxy Materials (the "Shareholder Notice"), which includes instructions on (i) how to access our Proxy Statement and Annual Report on the Internet, (ii) how to request that a printed copy of these proxy materials be forwarded to you, and (iii) how to vote your shares. If you receive the Shareholder Notice, you will not receive a printed copy of the proxy materials unless you request a printed copy by following the instructions in the Shareholder Notice. All other shareholders will be sent the proxy materials by mail beginning on or about April 4, 2017.

Requests for printed copies of the proxy materials can be made by Internet at http://www.proxyvote.com, by telephone at 1-800-579-1639 or by email at sendmaterial@proxyvote.com by sending a blank email with your control number in the subject line.

What does it mean if I receive more than one proxy card or Shareholder Notice?

If you received more than one proxy card or Shareholder Notice, it generally means you hold shares registered in more than one account. If you received a paper copy of the proxy statement and you choose to vote by mail, sign and return each proxy card. If you choose to vote by Internet or telephone, vote once for each proxy card and/or Shareholder Notice you receive. If you have received more than one Shareholder Notice, vote once for each Shareholder Notice that you receive.

What are shareholders being asked to vote on?

There are four items to be voted on at the meeting:

- The election of four persons to serve as directors for three-year terms;
- An advisory vote to approve executive compensation;
- An advisory vote to approve the frequency of future advisory votes on executive compensation; and
- An advisory vote to ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2017.

What are my voting choices?

For proposal 1, the election of directors, you may:

- Vote in favor of all nominees;
- Vote in favor of specific nominees and withhold a favorable vote for specific nominees; or
- Withhold authority to vote for all nominees.

For each of proposal 2 (the advisory vote to approve executive compensation) and proposal 4 (the advisory vote to ratify the selection of independent auditors) you may:

- Vote in favor of the proposal;
- Vote against the proposal; or
- Abstain from voting on the proposal.

For proposal 3 (the advisory vote to approve the frequency of future advisory votes on executive compensation), you may:

- Vote in favor of every one year (annual vote);
- Vote in favor of every two years (biennial vote);
- Vote in favor of every three years (triennial vote); or
- Abstain from voting on the proposal.

How does the Board recommend that I vote?

Select Comfort's Board unanimously recommends that you vote your shares:

- **"For"** the election of each of the nominees for director nominated herein by the Board of Select Comfort;
- **"For"** the advisory vote to approve executive compensation;
- **For every "one year"** as the frequency of future advisory votes on executive compensation; and
- **"For"** the advisory vote to ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2017.

How are votes counted?

If you are a Shareholder of Record and grant a proxy by telephone or Internet without voting instructions, or sign and submit your proxy card without voting instructions, your shares will be voted “FOR” each director nominee, “FOR” every “one year” on the frequency of future advisory votes on executive compensation and “FOR” each of the other proposals outlined above in accordance with the recommendations of the Board.

Proxies marked “Withhold” on proposal 1 (election of directors), or “Abstain” on proposal 2 (the advisory vote to approve executive compensation) or proposal 4 (the advisory vote to ratify the selection of independent auditors), will be counted in determining the total number of shares entitled to vote on such proposals and will have the effect of a vote “Against” a director or a proposal. If you “Abstain” from voting on proposal 3 (the advisory vote to approve the frequency of future advisory votes on executive compensation), the abstention will not have an effect on the outcome of the vote.

If you are a Beneficial Owner and hold your shares in “street name,” such as through a bank, broker or other nominee, you generally cannot vote your shares directly and must instead instruct the broker how to vote your shares using the voting instruction form provided by the broker.

What is a Broker Non-Vote?

If a Beneficial Owner does not provide timely instructions, the broker will not have the authority to vote on any non-routine proposals at the Annual Meeting, which includes proposals 1, 2 and 3. Brokers will have discretionary authority to vote on proposal 4 because the ratification of the appointment of independent auditors is considered a routine matter. If the broker votes on proposal 4 (the advisory vote to ratify the selection of independent auditors), but does not vote on another proposal because the broker does not have discretionary voting authority and has not received instructions from the Beneficial Owner, this results in a “broker non-vote” with respect to such proposal(s).

Broker non-votes on a matter may be counted as present for purposes of establishing a quorum for the meeting, but are not considered entitled to vote on that particular matter. Consequently, broker non-votes generally will have no effect on the outcome of the matter. However, if and to the extent that broker non-votes are required to establish the presence of a quorum at the Annual Meeting, then any broker non-votes will have the same effect as a vote “Withheld” or “Against” any matter that requires approval of a majority of the minimum number of shares required to constitute a quorum for the transaction of business at the Annual Meeting.

What is the vote required to approve each proposal?

Assuming that a quorum is present to vote on each of the proposals, proposals 1, 2, and 4 before the shareholders will require the affirmative vote of holders of a majority of the shares represented and entitled to vote in person or by proxy on such action. For proposal 3, the choice that receives the most votes of the shares represented and entitled to vote in person or by proxy will be considered the preference of the company’s shareholders.

Please note that each of proposals 2, 3 and 4 are "advisory" votes, meaning that the shareholder votes on these items are for purposes of enabling shareholders to express their point of view or preference on these proposals, but are not binding on the company or its board of directors and do not require the company or its board of directors to take any particular action in response to the shareholder vote. The Board intends to consider fully the votes of our shareholders in the context of any further action with respect to these proposals.

What constitutes a "quorum," or how many shares are required to be present to conduct business at the Annual Meeting?

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of common stock entitled to vote (i.e., at least 20,902,322 shares) will constitute a quorum for the transaction of business at the Annual Meeting. In general, shares of common stock represented by a properly signed and returned proxy card or properly voted by telephone or via the Internet will be counted as shares represented and entitled to vote at the Annual Meeting for purposes of determining a quorum, without regard to whether the card reflects abstentions and withhold votes (or is left blank) or reflects a "broker non-vote" on a matter.

How do I vote my shares?

If you are a *Shareholder of Record* as of the record date, you can vote your shares in any of the following ways:

- Over the *telephone* by calling the toll-free number on the proxy card;

- Over the *Internet* by following the instructions on the proxy card;

- Through the *mail* – if you received a paper copy of the proxy statement, you may vote by mail by signing, dating and mailing your proxy card in the envelope provided; or

- Over the *Internet* during the 2017 annual meeting by going to www.virtualshareholdermeeting.com/scss2017 and using your 16-digit control number (included on the Notice of Internet Availability of Proxy Materials, on your proxy card or in the instructions that accompanied your proxy materials).

The telephone and Internet voting procedures have been set up for your convenience. We encourage you to save corporate expense by submitting your vote by telephone or Internet. The procedures have been designed to authenticate your identity, to allow you to give voting instructions, and to confirm that those instructions have been recorded properly.

If you are a *Beneficial Owner* of shares held in "street name," you must vote your shares in the manner prescribed by your bank, broker or other nominee. Your bank, broker or other nominee has provided notice by email or a printed voting instruction card for you to use in directing the bank, broker or nominee how to vote your shares. Telephone and Internet voting are also encouraged for Beneficial Owners who hold their shares in street name.

Beneficial Owners should be aware that brokers are not permitted to vote shares on non-routine matters, including the election of directors or matters related to executive compensation, without instructions from the Beneficial Owner. As a result, brokers are not permitted to vote shares on proposal 1 (election of directors), proposal 2 (the advisory vote to approve executive compensation) or proposal 3 (the advisory vote to approve the frequency of future advisory votes on executive compensation) without instructions from the Beneficial Owner. Therefore, Beneficial Owners are advised that if they do not timely provide instructions to their bank, broker or other holder of record with respect to proposals 1, 2 and/or 3, their shares will not be voted in connection with such proposals. Proposal 4 (the advisory vote to ratify the selection of independent auditors) is considered a routine matter and, as such, brokers will still be able to vote shares held in brokerage accounts with respect to proposal 4, even if they do not receive instructions from the Beneficial Owner.

Your vote is important. Whether or not you plan to attend the meeting, we urge you to vote your shares in time for our May 17, 2017 meeting date.

May I revoke a proxy and change my vote?

Yes. Any shareholder giving a proxy may revoke it at any time prior to its use at the Annual Meeting by:

- Delivering written notice of revocation to the Corporate Secretary before 6:00 p.m., Eastern Daylight Time, on May 15, 2017;
- Submitting to the Corporate Secretary before 6:00 p.m., Eastern Daylight Time, on May 15, 2017, a properly signed proxy card bearing a later date than the prior proxy card;
- Voting again by Internet or telephone before 11:59 p.m., Eastern Daylight Time, on May 16, 2017; or
- Participating in the Annual Meeting and voting your shares electronically during the Annual Meeting. Participation in the Annual Meeting will not cause your previously granted proxy to be revoked unless you specifically make that request.

Can I receive future proxy materials electronically?

Yes. If you are a Shareholder of Record and you received a paper copy of the proxy materials, you may elect to receive future proxy statements and annual reports online as described in the next paragraph. If you elect this feature, you will receive an email message notifying you when the materials are available, along with a web address for viewing the materials. If you received this proxy statement electronically, you do not need to do anything to continue receiving proxy materials electronically in the future.

Whether you are a Shareholder of Record or a Beneficial Owner holding shares through a bank or broker, you can enroll for future electronic delivery of proxy statements and annual reports by following these steps:

- Go to our website at **www.sleepnumber.com**;
- In the **Investor Relations** section, click on **Electronic Fulfillment**;
- Click on the check-marked box next to the statement **"Shareholders can register for electronic delivery of proxy-related materials."**; and
- Follow the prompts to submit your request to receive proxy materials electronically.

Generally, banks and brokers offering this choice require that shareholders vote through the Internet in order to enroll. Beneficial Owners whose bank or broker is not included in this website are encouraged to contact their bank or broker and ask about the availability of electronic delivery. As is customary with Internet usage, the user must pay all access fees and telephone charges. You may view this year's proxy materials at **www.proxyvote.com.**

What are the costs and benefits of electronic delivery of Annual Meeting materials?

There is no cost to you for electronic delivery of annual meeting materials. You may incur the usual expenses associated with Internet access as charged by your Internet service provider. Electronic delivery ensures quicker delivery, allows you to view or print the materials at your computer and makes it convenient to vote your shares online. Electronic delivery also conserves natural resources and saves the company printing, postage and processing costs.

Who bears the proxy solicitation costs?

The proxies being solicited hereby are being solicited by the Board of Directors of the company. The cost of preparing and mailing the notice of Annual Meeting, this proxy statement and the accompanying proxy and the cost of solicitation of proxies on behalf of the Board of Directors will be borne by the company. The company may solicit proxies by mail, internet (including by email, Twitter, the use of our investor relations website and other online channels of communication), telephone, facsimile and other electronic channels of communication, town hall meetings, personal interviews, press releases, and press interviews. Our directors, officers and regular employees may, without compensation other than their regular compensation and the reimbursement of expenses, solicit proxies by telephone or personal conversation. In addition, we may reimburse brokerage firms and others for their reasonable and documented expenses incurred in connection with forwarding proxy materials to the Beneficial Owners of our common stock.

STOCK OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table shows the beneficial ownership of Select Comfort common stock as of February 25, 2017 (unless another date is indicated) by (a) each director, each nominee for director recommended by our Board and each executive officer named in the Summary Compensation Table on page 50 of this Proxy Statement, (b) all directors and executive officers as a group and (c) each person known by us to be the Beneficial Owner of more than 5% of Select Comfort common stock.

Title of Class	Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (2)	Percent of Class
Common Stock	Daniel I. Alegre	15,120	*
Common Stock	Andrea L. Bloomquist (3)	100,800	*
Common Stock	David R. Callen(4)	40,108	*
Common Stock	Andrew P. Carlin (3)	96,588	*
Common Stock	Stephen L. Gulis, Jr. (5)	119,783	*
Common Stock	Michael J. Harrison (5)	37,590	*
Common Stock	Shelly R. Ibach (6)	388,551	*
Common Stock	Suresh Krishna	24,405	*
Common Stock	Brenda J. Lauderback (5)	65,549	*
Common Stock	Barbara R. Matas (5)	1,659	*
Common Stock	Kathleen L. Nedorostek (5)	36,619	*
Common Stock	Vicki A. O’Meara	–	*
Common Stock	Michael A. Peel (5)	108,629	*
Common Stock	Jean-Michel Valette	273,141	*
Common Stock	All directors and executive officers as a group (19 persons) (7)	1,746,214	4.0%
Common Stock	Vulcan Value Partners, LLC (8) 2801 Highway 280 South, Suite 300 Birmingham, Alabama 35223	6,033,958	14.3%
Common Stock	BlackRock, Inc. (9) 55 East 52nd Street New York, New York 10055	5,232,647	12.4%
Common Stock	Disciplined Growth Investors, Inc. (10) 150 South Fifth Street, Suite 2550 Minneapolis, Minnesota 55402	3,776,347	8.9%
Common Stock	The Vanguard Group, Inc. (11) 100 Vanguard Blvd. Malvern, Pennsylvania 19355	3,753,670	8.9%

Common Stock	FMR LLC [12] 245 Summer Street Boston, Massachusetts 02210	2,768,173	6.5%

* Less than 1% of the outstanding shares.

(1) The business address for each of the directors and executive officers of the company is c/o Select Comfort Corporation, 9800 59th Avenue North, Plymouth, Minnesota 55442.

(2) The shares shown include the following shares that directors and executive officers have the right to acquire within 60 days through the exercise of stock options: Mr. Alegre (7,235 shares); Ms. Bloomquist (55,707 shares); Mr. Callen (14,012 shares); Mr. Carlin (60,110 shares); Mr. Gulis (45,110 shares); Mr. Harrison (10,704 shares); Ms. Ibach (209,246 shares); Mr. Krishna (4,770 shares); Ms. Lauderback (36,610 shares); Ms. Nedorostek (13,110 shares); Mr. Peel (32,973 shares); and Mr. Valette (18,110 shares). The shares shown also include the following shares that executive officers have the right to acquire within 60 days through the vesting of restricted stock units: Mr. Callen (4,685 shares) and Mr. Krishna (19,635 shares).

(3) Includes 30,448 shares held under performance stock grants that have not vested.

(4) Includes 10,702 shares held under performance stock grants that have not vested.

(5) The Amended and Restated 2010 Omnibus Plan (the Plan) permits non-employee directors to receive director fees in the form of common stock in lieu of cash, and to defer receipt of such shares. In addition, the Plan permits non-employee directors to defer receipt of shares of the company's common stock under an Incentive Award granted under the Plan (referred to as Restricted Stock Units or RSUs). The directors are entitled to the deferred shares and fully-vested RSUs upon separation of service from the company. Mr. Gulis's amount includes 49,746 shares that were deferred in lieu of director fees and 11,417 RSUs that were deferred. Mr. Harrison's amount includes 7,033 shares that were deferred in lieu of director fees and 7,885 RSUs that were deferred. Ms. Lauderback's amount includes 9,337 RSUs that were deferred. Ms. Matas' amount includes 1,659 shares that were deferred in lieu of director fees. Ms. Nedorostek's amount includes 12,092 shares that were deferred in lieu of director fees. Mr. Peel's amount includes 7,885 RSUs that were deferred.

(6) Includes 76,903 shares held under performance stock grants that have not vested.

(7) Includes an aggregate of 667,377 shares that directors and executive officers as a group have the right to acquire within 60 days through the exercise of stock options. Includes an aggregate of 225,524 shares held under restricted or performance stock grants that have not vested and 46,920 shares that directors and executive officers as a group have the right to acquire within 60 days through the vesting of RSUs. Also includes 70,530 shares that were deferred by non-employee directors in lieu of director fees and 42,554 RSUs that were deferred by executive officers and non-employee directors.

(8) Vulcan Value Partners, LLC reported in a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2017 that as of December 31, 2016 it beneficially owned 6,033,958 shares of Common Stock of Select Comfort Corporation, had sole power to vote or to direct the vote with respect to 5,931,863 shares and sole dispositive power with respect to 6,033,958 shares.

(9) BlackRock, Inc. reported in a Schedule 13G/A filed with the Securities and Exchange Commission on January 17, 2017 that as of December 31, 2016 it beneficially owned 5,232,647 shares of Common Stock of Select Comfort Corporation, had sole power to vote or to direct the vote with respect to 5,078,461 shares and sole dispositive power with respect to 5,232,647 shares.

(10) Disciplined Growth Investors, Inc. reported in a Schedule 13F filed with the Securities and Exchange Commission on February 13, 2017 that as of December 31, 2016 it beneficially owned 3,776,347 shares of Common Stock of Select Comfort Corporation, had sole dispositive power with respect to 3,776,347 shares, sole power to vote or to direct the vote with respect to 3,186,187 shares and no voting power with respect to 590,160 shares.

(11) The Vanguard Group, Inc. reported in a Schedule 13G/A filed with the Securities and Exchange Commission on February 13, 2017 that as of December 31, 2016 it beneficially owned 3,753,670 shares of Common Stock of Select Comfort Corporation, had sole power to vote or to direct the vote with respect to 91,885 shares, shared power to vote or to direct the vote with respect to 6,230 shares, shared dispositive power with respect to 95,545 shares and sole dispositive power with respect to 3,658,125 shares.

(12) FMR LLC reported in a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2017 that as of December 30, 2016 it beneficially owned 2,768,173 shares of Common Stock of Select Comfort Corporation, had sole power to vote or to direct the vote with respect to 211,300 shares and sole dispositive power with respect to 2,768,173 shares.

ELECTION OF DIRECTORS

(Proposal 1)

Nomination

Article XIV of our Third Restated Articles of Incorporation provides that the number of directors must be at least one but not more than 12 and must be divided into three classes as nearly equal in number as possible. The exact number of directors is determined from time-to-time by the Board of Directors. The term of each class is three years and the term of one class expires each year in rotation.

Immediately prior to the 2017 Annual Meeting, our Board will consist of 10 members, four of which will be up for election at the 2017 Annual Meeting. The Board has nominated **Kathleen L. Nedorostek, Vicki A. O'Meara, Michael A. Peel and Jean-Michel Valette** for election to the Board, each for a term of three years expiring at the 2020 Annual Meeting, or until their successors are elected and qualified. Ms. Nedorostek, Ms. O'Meara, Mr. Peel and Mr. Valette have each consented to being named as a nominee in this proxy statement and to serve as a director if elected. Ms. Nedorostek has served on our Board since 2011; Ms. O'Meara has served on our Board since 2016; Mr. Peel has served on our Board since 2003 and Mr. Valette has served on our Board since 1994.

Vote Required

The election of each nominee for director requires the affirmative vote of a majority of the shares represented and entitled to vote on the election of directors at the Annual Meeting. Any broker non-votes on the election of each nominee for director will be treated as shares not entitled to vote on that matter, and thus will not be counted in determining whether the director has been elected.

Board Recommendation

The Board recommends a vote "**For**" the election of each of Ms. Nedorostek, Ms. O'Meara, Mr. Peel and Mr. Valette. In the absence of other instructions, properly signed and delivered proxies will be voted "**For**" the election of each of these nominees.

If prior to the Annual Meeting the Board should learn that any nominee will be unable to serve for any reason, the proxies that otherwise would have been voted for such nominee will be voted for such substitute nominee as selected by the Board. Alternatively, the proxies, at the Board's discretion, may be voted for such fewer number of nominees as results from the inability of any such nominee to serve. The Board has no reason to believe that any of the nominees will be unable to serve.

Information about the Board's Nominees and Other Directors

The following table provides information as of the date of this Proxy Statement about each individual serving as a Director of our company and each individual nominated by the Board to serve as a Director. Each Director or Nominee has furnished the information included below that relates to his or her respective age, principal occupation and business experience, as well as the names of other boards on which he or she currently serves as a director or has served in the past. In addition, the table below highlights the relevant experience, qualifications, attributes and skills that led our Board to conclude that each director or nominee should serve as a director of our company.

Name and Age of Nominee and/or Director	Principal Occupation, Business Experience And Directorships of Other Companies	Director Since
Nominees for election this year to three-year terms expiring in 2020:		
Kathleen L. Nedorostek Age 64	**Occupation:** Former Global CEO of Nine West Group, a division of Nine West Holdings, Inc., a leading global designer, marketer and wholesaler of brands in apparel, footwear and accessories from April 2014 to September 2014; Group President, Global Footwear and Accessories at The Jones Group from October 2012 until April 2014; President of the North American Wholesale and Global Licensing divisions of Coach Inc. from 2003 to 2012. **Qualifications:** Ms. Nedorostek provides our Board with significant experience leading high-end, multi-national branded consumer products companies with both manufacturing and retail operations. Her experience includes strategic planning for global businesses, P&L oversight, organizational strategy and change management, product design, global licensing and distribution, brand marketing and real estate.	2011
Vicki A. O'Meara Age 59	**Occupation:** Chief Executive Officer of Analytics Pros, Inc., a digital analytics consultancy, since 2014; Executive Vice President of Pitney Bowes, Inc. and President of Pitney Bowes Service Solutions with responsibility for global document management, marketing services and e-commerce units from 2010 to 2013; Previously served for over 10 years in various senior management positions at Ryder Systems, Inc., including as head of Ryder's U.S. Supply Chain Solutions business from 2005 to 2007; Ms. O'Meara's career began as an attorney and Army Captain, and she served in several senior federal government positions.	2016

	Qualifications: Ms. O'Meara brings to our Board extensive global leadership and operational experience in a variety of functional areas relevant to our business and strategic direction, including supply chain, digital analytics, marketing, corporate governance, environmental health and safety and government affairs. Ms. O'Meara also brings experience from prior service on two public company boards. **Other Public Company Boards:** Prior: Health Management Associates, Inc. and Laidlaw, Inc.	
Michael A. Peel Age 67	**Occupation:** Elected an Officer of Yale University in October 2008 and currently Vice President for Human Resources and Administration; Previously a 17-year member of the top leadership team at General Mills, Inc., a manufacturer and marketer of consumer food products, including serving as Executive Vice President of Human Resources and Global Business Services; Also 14 years of experience at PepsiCo, Inc., including as Chief Human Resources Officer for PepsiCo Worldwide Foods and Pepsi-Cola Bottling Group. **Qualifications:** Mr. Peel's experience at large, consumer-oriented, publicly traded companies and large institutions provides our Board with senior level perspective on organizational effectiveness, talent development, succession planning and executive compensation. **Other Public Company Boards:** Current: Pier 1 Imports, Inc.	2003
Jean-Michel Valette Age 56	**Occupation:** Chairman of our Board since May 2010; Independent adviser to branded consumer companies; Currently serves as Lead Director of The Boston Beer Company; Served as Chairman of the Board of Directors of Peet's Coffee and Tea, Inc. from January 2004 to October 2012; Also served as non-executive Chairman of the Robert Mondavi Winery from April 2005 to October 2006 and was its Managing Director from October 2004 to April 2005; Head of Branded Consumer Equity Research and Branded Consumer Venture Capital Investments at Hambrecht & Quist LLC, an investment banking firm, during the 1990s.	1994

Qualifications: Mr. Valette provides our Board with significant, relevant leadership and a proven track record of shareholder value creation with multiple successful branded consumer growth companies as well as valuable perspective in guiding the company on strategy, financial performance and corporate governance practices.

Other Public Company Boards:
Current: Lead Director of The Boston Beer Company
Prior: Peet's Coffee and Tea, Inc., Golden State Vintners

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS YOU VOTE "FOR" THE ELECTION OF EACH OF THE NOMINEES LISTED ABOVE

Directors not standing for election this year whose terms expire in 2018:

Daniel I. Alegre Age 48	**Occupation:** President of Global Partner Business Solutions for Google, Inc. since November 2012; Held various roles at Google since 2004, including President of Asia Pacific and Japan, overseeing all regional operations, and Vice President of Latin American and Asia Pacific Business Development; Previously, Mr. Alegre was Vice President at Bertelsmann, responsible for business development of its ecommerce division. **Qualifications:** Mr. Alegre provides the Board with valuable insight into mobile and technology platforms, digital brand building and advertising, and e-commerce deployment and strategy, as well as extensive leadership in global operations and expansion, partner management and business development in technology and mass media industries.	2013
Stephen L. Gulis, Jr. Age 59	**Occupation:** Retired Executive Vice President and President of Global Operations for Wolverine World Wide, Inc. (WWW), a global marketer of branded footwear, apparel and accessories, a position he held from October 2007 until July 2008; Executive Vice President, CFO and Treasurer of WWW from April 1996 until October 2007. **Qualifications:** Mr. Gulis provides the Board with extensive experience as a senior executive of a publicly traded consumer products company, including as a chief financial officer and treasurer with responsibility for capital stewardship and cash management, significant M&A activity and broad oversight of financial reporting and controls. Mr. Gulis also brings expertise in risk management,	2005

implementation of enterprise technology platforms, global operations, human resources and product sourcing and quality directives.

Other Public Company Boards:
Current: Independent Bank Corporation
Prior: Meritage Hospitality

Brenda J. Lauderback Age 66	**Occupation:** Former President of the Retail and Wholesale Group for the Nine West Group, Inc., a designer and marketer of women's footwear and accessories, from May 1995 until January 1998; Previous roles include President of Wholesale and Manufacturing for US Shoe Corporation and more than 18 years in senior merchandising roles at the Department Store Division of Target Corporation. **Qualifications:** Ms. Lauderback brings to our Board extensive leadership in merchandising, marketing, product development and design and manufacturing at prominent national wholesale and retail companies. Her breadth of experience as a director on several other publicly traded company boards also provides our Board with significant insight into leading practices in executive compensation and corporate governance. Ms. Lauderback is a National Association of Corporate Directors (NACD) Board Leadership Fellow, having completed NACD's comprehensive program of study for directors and corporate governance professionals. She supplements her skill sets through ongoing engagement with the director community, and access to leading practices. **Other Public Company Boards:** Current: Denny's Corporation and Wolverine World Wide, Inc. Prior: Big Lots, Inc., Louisiana-Pacific Corporation, Irwin Financial Corporation, Jostens Corporation	2004

Directors not standing for election this year whose terms expire in 2019:

Michael J. Harrison Age 56	**Occupation:** Board Director since January 2016, and previously interim CEO from March 2014 to May 2015, of OOFOS, LLC, a leader in the emerging global category of recovery footwear for athletes; President & Chief Operating Officer of Grand Circle Corporation, a leading overseas travel company serving U.S. travelers age 50+, from August 2016 through January 2017; Board Director of Totes	2011

	Isotoner Corporation, a leading global marketer of umbrellas, gloves, rainwear, slippers and other weather-related accessories from December 2014 to August 2016; Previously Chief Brand Officer for The Timberland Company, a leading brand of outdoor footwear, apparel and gear from July 2009 through November 2012; Prior to 2009, Mr. Harrison held various senior leadership roles at Timberland and Procter & Gamble Co., including positions with significant responsibility for international marketing, global operations and business development. **Qualifications:** Mr. Harrison brings 30 years of business acumen to our Board from his senior executive experience in marketing, product design and development, retailing and international management with leading consumer brands. **Other Company Boards (privately held):** Current: OOFOS, LLC Prior: Totes/Isotoner Corporation	
Shelly R. Ibach Age 57	**Occupation:** President and Chief Executive Officer of Select Comfort Corporation since June 2012; Executive Vice President and Chief Operating Officer from June 2011 to June 2012; Executive Vice President, Sales & Merchandising from October 2008 to June 2011; Previously held various senior executive operations and merchandising roles at Macy's, Inc. and the Department Store Division at Target Corporation for more than 25 years. **Qualifications:** Ms. Ibach brings experience and perspective as Select Comfort's President and CEO as well as intimate knowledge of our customer, culture, strategy, product, marketing, operations and competitive environment gained during nine years in executive management with the company. Ms. Ibach also brings more than two decades of retail experience with P&L oversight, brand and product development and customer-focused leadership experience with prominent national retailers.	2012
Barbara R. Matas Age 57	**Occupation:** Former Managing Director and Chairman, Leveraged Finance, Citigroup Global Markets, Inc. from 2013 to 2016, and co-head from 2006 to 2013; From 1985 to 2006 Ms. Matas held various leadership positions in leveraged finance and high yield capital markets at Citicorp, Salomon Brothers and Citigroup; Ms. Matas began her career as an auditor at Touche Ross & Co.	2016

Qualifications: Ms. Matas brings to our board substantial expertise in capital structure and financial strategy gained through more than 30 years of professional experience in advising boards and management teams on capital markets, capital structure and risk assessment and management.

Other Public Company Boards:
Current: Apollo Investment Corporation

David T. Kollat retired from the board when his term expired at the 2016 Annual Meeting of Shareholders, after serving more than 20 years as a Select Comfort director. Following his retirement from the Board Mr. Kollat was appointed to continue to serve in a non-voting advisory role to the board, as Director Emeritus, for a period of twelve months. In this capacity, Mr. Kollat has received compensation in line with that of non-employee directors.

Corporate Governance

Information about the Board of Directors and its Committees

The Board of Directors has determined that each of the following directors who served as a member of our Board during any part of fiscal 2016 is an "independent director" as defined by applicable rules of the NASDAQ Stock Market and the rules and regulations of the Securities and Exchange Commission ("SEC"):

Daniel I. Alegre	Stephen L. Gulis, Jr.	Michael J. Harrison
Brenda J. Lauderback	Barbara R. Matas	Kathleen L. Nedorostek
Vicki A. O'Meara	Michael A. Peel	Jean-Michel Valette

The Board maintains three standing committees, including an Audit Committee, a Management Development and Compensation Committee and a Corporate Governance and Nominating Committee. Each of the committees of the Board has a charter and each of these charters is included in the investor relations section of the company's website at *http://www.sleepnumber.com/sn/en/investor-relations*. The information contained in or connected to our website is not incorporated by reference into or considered a part of this Proxy Statement.

The current members of each of the Board committees are identified in the table below.

Director	**Audit Committee**	**Management Development and Compensation Committee**	**Corporate Governance and Nominating Committee**
Daniel I. Alegre		X	
Stephen L. Gulis, Jr.	Chair		X
Michael J. Harrison	X		X
Brenda J. Lauderback	X	Chair	
Barbara R. Matas	X		
Kathleen L. Nedorostek		X	X
Vicki A. O'Meara	X		
Michael A. Peel		X	Chair
Jean-Michel Valette*			

*In his capacity as non-executive Chairman of the Board, Mr. Valette generally attends all committee meetings.

The Board has determined that each director serving on a committee meets the independence and other requirements applicable to such committee prescribed by applicable rules and regulations of the NASDAQ Stock Market, the SEC and the Internal Revenue Service.

The Board of Directors has further determined that two current members of the Audit Committee, Stephen L. Gulis, Jr. and Barbara R. Matas, meet the definition of "audit committee financial expert" under rules and regulations of the SEC and meet the qualifications of "financial sophistication" under the Marketplace Rules of the NASDAQ Stock Market. These designations related to our Audit Committee members' experience and understanding with respect to certain accounting and auditing matters are disclosure requirements of the SEC and the NASDAQ Stock Market and do not impose upon any of them any duties, obligations or liabilities that are greater than those generally imposed on a member of our Audit Committee or of our Board of Directors.

The Board of Directors met in person or by telephone conference six times during 2016. The Audit Committee met in person or by telephone conference nine times during 2016. The Management Development and Compensation Committee met in person or by telephone conference four times during 2016. The Corporate Governance and Nominating Committee met in person or by telephone conference nine times during 2016. All of the members of our Board of Directors serving in 2016 attended 75% or more of all meetings of the Board and committees on which they served during fiscal 2016.

Audit Committee. The Audit Committee is comprised entirely of independent directors, currently including Stephen L. Gulis, Jr. (Chair), Michael J. Harrison, Brenda J. Lauderback, Barbara R. Matas and Vicki A. O'Meara. The Audit Committee provides assistance to the Board in satisfying its fiduciary responsibilities relating to accounting, auditing, operating and reporting practices of our company. The Audit Committee is responsible for providing independent, objective oversight with respect to our company's accounting and financial reporting functions, internal and external audit functions, systems of internal controls regarding financial matters and legal, ethical and regulatory compliance. The responsibilities and functions of the Audit Committee are further described in the Audit Committee Report beginning on page 66 of this Proxy Statement.

Management Development and Compensation Committee. The Management Development and Compensation Committee is comprised entirely of independent directors, currently including Brenda J. Lauderback (Chair), Daniel I. Alegre, Kathleen L Nedorostek and Michael A. Peel. The principal function of the Committee is to discharge the responsibilities of the Board relating to executive compensation and development of current and future leadership resources.

The Committee is responsible for establishing the procedures for setting annual and long-term performance goals for the Chief Executive Officer and for the evaluation by the full Board of his or her performance against such goals. The Committee meets at least annually with the Chief Executive Officer to receive her recommendations concerning such goals. Both the annual goals and the annual performance evaluation of the Chief Executive Officer are reviewed and discussed by the outside directors at a meeting or executive session of that group. The Committee is also responsible for setting annual and long-term performance goals and compensation for the direct reports to the Chief Executive Officer.

The Committee has the authority under its charter to retain and consult with independent advisors to assist the Committee in fulfilling these responsibilities and duties.

The Committee usually meets four to six times per year in person or by telephone conference as needed. The Chairman of the Committee works with members of our senior management team and with the Committee's independent compensation consultant to determine the agenda for each meeting.

At the beginning of each fiscal year, the Committee reviews and approves compensation for the CEO and each of the other executive officers, which generally includes:

- Changes, if any, to base salaries;

- Establishing the annual cash incentive program, including the target cash incentive levels, the performance measures and goals, and the threshold, target and maximum payout amounts; and

- Establishing the long-term equity incentive program, including the mix of stock options and performance share awards, the performance measures and goals applicable to the performance shares, the threshold, target and maximum payout amounts applicable to the performance shares, any special recognition or retention awards, and the grant levels for each of the executive officers.

In connection with this review and approval, the independent compensation consultant provides relevant market data and trends for the Committee to consider, and the Committee compares each element of total compensation against this market data as it makes compensation decisions.

Following the end of each fiscal year, the Committee reviews and confirms the level of achievement of performance goals previously established for the fiscal year and approves any resulting annual cash incentive or performance share payouts that may be applicable.

Also on an annual basis, the Committee leads the Chief Executive Officer performance evaluation process and reviews the development and succession plans with respect to the entire executive team.

The responsibilities and functions of the Management Development and Compensation Committee, as well as its processes and procedures for consideration and determination of executive and director compensation, are further described in the Compensation Discussion and Analysis beginning on page 28 of this Proxy Statement.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee is comprised entirely of independent directors, currently including Michael A. Peel (Chair), Stephen L. Gulis, Jr., Michael J. Harrison and Kathleen L. Nedorostek. The primary functions of the Corporate Governance and Nominating Committee are to develop and recommend to the Board corporate governance principles to govern the Board, its committees, and our executive officers and employees in the conduct of the business and affairs of our company; to identify and recommend to the Board individuals qualified to become members of the Board and its committees; and to develop and oversee the annual Board and Board committee evaluation process.

Board Leadership Structure

Our Board is currently comprised of nine independent directors and one executive director, Shelly R. Ibach, who has served as our President and Chief Executive Officer since June 2012. Since February 2008, the Board has determined to separate the positions of Chairman of the Board and Chief Executive Officer. Based on its ongoing review of best practices in corporate governance, and to enable the President and Chief Executive Officer to focus all of her time and energy in leadership of the day-to-day operations of the company and its growth and profitability initiatives, the Board continues to believe it is best for the company to separate these positions. Jean-Michel Valette, an independent director, has served as Chairman of the Board since May 2010.

Consistent with the company's Corporate Governance Principles, the Board retains the right to review this determination and to either continue to maintain these positions as separated positions or to combine the positions, as the Board determines to be in the best interests of the company at the time. Under the company's Corporate Governance Principles, during any period in which the positions of Chairman of the Board and Chief Executive Officer are combined, the Board would appoint a Lead Director from among the independent members of the Board, who would have certain Board leadership responsibilities specified in our Corporate Governance Principles.

Board Role in Risk Oversight

Our Board is responsible for overseeing the company's policies and practices with respect to risk assessment and risk management, and has delegated to the Audit Committee the responsibility of assisting the Board in fulfilling this role. Among its duties and processes, the Audit Committee (a) reviews and discusses with management the company's policies and practices with respect to risk assessment and risk management; (b) oversees the company's internal audit function and processes; (c) establishes and oversees procedures for receiving and addressing complaints regarding accounting, internal controls or auditing matters; (d) reviews legal compliance and other legal matters with the company's counsel; and (e) reports to the full Board with respect to matters within its area of responsibility.

The Audit Committee oversees the company's internal audit function, which is responsible for undertaking an annual risk assessment process and reporting to the Audit Committee with respect to this assessment and related risk management strategies. The Audit Committee reviews and approves, at least annually, the company's internal audit plan and receives quarterly reports with respect to the results of internal audits. The leader of the company's internal audit function reports directly to the Audit Committee with respect to internal audit matters, and the Audit Committee has authority to review and approve the appointment, replacement or dismissal of the leader of this function. The leader of the internal audit function meets regularly in executive session with the Audit Committee without any other members of the company's management team present.

In addition to the Audit Committee's role, each of the other committees considers risks within its respective areas of responsibility. We believe our current Board leadership structure helps ensure proper risk oversight, based on the allocation of duties among committees and the role of our independent directors in risk oversight.

Director Nominations Process

The Corporate Governance and Nominating Committee (the "CGNC") administers the process for nominating candidates to serve on our Board of Directors. The CGNC recommends candidates for consideration by the Board as a whole, which is responsible for appointing candidates to fill any vacancy that may be created between meetings of the shareholders and for nominating candidates to be considered for election by shareholders at our Annual Meeting.

Consistent with the company's Corporate Governance Principles, the CGNC periodically reviews with the Board the appropriate skills and characteristics required of Board members in the context of the current membership of the Board and the strategic direction of the company.

The Board has established selection criteria to be applied by the CGNC and by the full Board in evaluating candidates for election to the Board. These criteria include general characteristics, areas of specific expertise and experience, and considerations of diversity. The general characteristics include:

- Independence;
- Integrity;
- A proven record of accomplishment and sound judgment in areas relevant to our business;
- Belief in and passion for our mission and vision;
- The ability to bring strategic and innovative insights to the discussion and challenge and stimulate management;
- Willingness to both speak one's mind and consider divergent ideas and opinions;
- Understanding of, and ability to commit sufficient time to, Board responsibilities and duties; and
- Subject matter expertise.

The specific areas of expertise and experience sought by the CGNC and the Board from time to time will vary depending on the composition of the Board and the strategic direction of the company at the time, but will generally include CEO experience, executive level experience with analogous businesses and industries, and functional expertise relevant to the strategic direction of the company or the needs of the committees of the Board.

The director nomination process specifically includes consideration of diversity, such as diversity of age, gender, race and national origin, educational and professional experience and differences in viewpoints. The company does not have a formal policy with respect to diversity. However, the CGNC considers the Board's overall composition when considering Director candidates, including whether the Board has an appropriate combination of professional experience, skills, knowledge and variety of viewpoints and backgrounds in light of the company's current and expected future needs. In addition, the CGNC also believes that it is desirable for new candidates to contribute to a variety of viewpoints on the Board, which may be enhanced by a mix of different professional and personal backgrounds and experiences. Currently, 50% of our Directors are women.

The CGNC reviews these selection criteria and the overall director nomination process at least annually in connection with the nomination of directors for election at the company's annual meeting for consistency with best practices in corporate governance and effectiveness in meeting the needs of the Board from time-to-time.

The CGNC may use a variety of methods for identifying potential nominees for election to the Board, including consideration of candidates recommended by directors, officers or shareholders of the company. The CGNC also has the authority under its charter to engage professional search firms or other advisors to assist the CGNC in identifying candidates for election to the Board, or to otherwise assist the CGNC in fulfilling its responsibilities.

Shareholder nominations of candidates for membership on the Board submitted in accordance with the terms of our Bylaws will be reviewed and evaluated by the CGNC in the same manner as for any other nominations. Any shareholder who wishes the CGNC to consider a candidate should submit a written request and related information to our Corporate Secretary. Under our Bylaws, if a shareholder intends to nominate a person for election to the Board of Directors at a shareholder meeting, the shareholder is required to give written notice of the proposed nomination to the Corporate Secretary at least 120 days prior to the first anniversary of the date that the company first released or mailed its proxy materials to shareholders in connection with the preceding year's regular or annual meeting. The shareholder's notice must include, for each nominee whom the shareholder proposes to nominate for election as a director: (i) the name, age, business address and residence address of the nominee, (ii) the principal occupation or employment of the nominee, (iii) the class and number of shares of capital stock of the company that are beneficially owned by the nominee, and (iv) any other information concerning the nominee that would be required under the rules of the Securities and Exchange Commission in a proxy statement soliciting proxies for the election of such nominee. The shareholder's notice must also include: (i) the name and address of the nominating shareholder, as they appear on the company's books, and (ii) the class and number of shares of the company that are owned beneficially and of record by the shareholder. The shareholder's notice must also be accompanied by the proposed nominee's signed consent to serve as a director of the company.

Shareholder Communications with the Board

Shareholders may communicate with the Board of Directors, its Committees or any individual member of the Board of Directors by sending a written communication to our Corporate Secretary at 9800 59th Avenue North, Plymouth, MN 55442. The Corporate Secretary will promptly forward any communication so received to the Board, any Committee of the Board or any individual Board member specifically addressed in the communication. In addition, if any shareholder or other person has a concern regarding any accounting, internal control or auditing matter, the matter may be brought to the attention of the Audit Committee, confidentially and anonymously, by calling 1-800-835-5870, inserting the I.D. Code of AUDIT (28348) and following the prompts from the recorded message. The company reserves the right to revise this policy in the event that the process is abused, becomes unworkable or otherwise does not efficiently serve the purposes of the policy.

Policy Regarding Director Attendance at Annual Meeting

Our policy is to require attendance by all of our directors at our Annual Meeting of Shareholders, except for absences due to causes beyond the reasonable control of the director. All of the directors then serving on our Board were in attendance at our 2016 Annual Meeting of Shareholders.

<u>Corporate Governance Principles.</u> Our Board of Directors has adopted Corporate Governance Principles that were originally developed and recommended by the CGNC. These Corporate Governance Principles are available in the investor relations section of the company's

website at *http://www.sleepnumber.com/sn/en/investor-relations*. The information contained in or connected to our website is not incorporated by reference into or considered a part of this Proxy Statement. Among these Corporate Governance Principles are the following:

Independence. A substantial majority of the members of the Board should be independent, non-employee directors. It is the responsibility of the Board to establish the standards for independence and the Board has followed the independence standards for companies listed on The NASDAQ Stock Market. All of our directors are independent except Shelly R. Ibach. All Committees of the Board are composed entirely of independent directors.

Chairman and Chief Executive Officer Positions. At the present time, the Board believes that it is in the best interests of the company and its shareholders for the positions of Chairman of the Board and Chief Executive Officer to be separated, and for the position of Chairman of the Board to be held by a non-executive, independent member of the Board. The Board retains the right to review this determination and to either continue to maintain these positions as separated positions or to combine the positions, as the Board determines to be in the best interests of the company at the time. During any period in which the positions of Chairman of the Board and Chief Executive Officer are combined, the Board will appoint a Lead Director from among the independent members of the Board.

Classified Board Structure. Our Third Restated Articles of Incorporation provide for a classified Board serving staggered terms of three years each. The Board will periodically review its classified Board structure in the context of other provisions and measures applicable to unsolicited takeover proposals with the objective of positioning the Board and the company to maximize the long-term value of our company for all shareholders.

Majority Voting Standard with Resignation Policy for Board Elections. Our Third Restated Articles of Incorporation provide for a majority voting standard in the case of uncontested elections of directors and a plurality voting standard in the case of contested elections of directors in order to reduce the risk of a "failed election" in the context of a contested director election. If a nominee for Director who is an incumbent Director is not elected at a meeting of shareholders and no successor to the incumbent Director is elected at the meeting of shareholders, the incumbent Director shall promptly offer to tender his or her resignation to the Board. The CGNC may make a recommendation to the Board on whether to accept or reject the offer, or whether other action should be taken. The Board shall act on whether to accept the Director's offer, taking into account the CGNC's recommendation, and publicly disclose (by press release, a filing with the SEC or other broadly disseminated means of communication) its decision and the supporting rationale within 90 days after the date of the certification of the election results. The CGNC, in making its recommendation, and the Board, in making its decision, may each consider any factors or other recommendations that it considers relevant and appropriate. The incumbent Director who offers to tender his or her resignation shall not participate in the Board's decision. If such incumbent Director's offer to tender his or her resignation is not accepted by the Board, such Director shall continue to serve until his or her successor is duly elected, or his or her earlier death, resignation, retirement, disqualification or removal.

Board Diversity. The company does not have a formal policy with respect to diversity. However, the CGNC considers the Board's overall composition when considering Director candidates, including whether the Board has an appropriate combination of professional experience, skills, knowledge and variety of viewpoints and backgrounds in light of the company's current and expected future needs. In addition, the CGNC believes that it is desirable for new candidates to contribute to a variety of viewpoints on the Board, which may be enhanced by a mix of different professional and personal backgrounds and experiences.

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

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

Other Board or Audit Committee Service. The Board recognizes that service on other boards can in some circumstances limit the time that Directors may have to devote to fulfilling their responsibilities to the company. It is the Board's guideline that no Director shall serve on more than a total of six public company boards (including the Select Comfort Board), and that no member of the company's Audit Committee shall serve on more than a total of three public company audit committees (including the Select Comfort Audit Committee). If any Director exceeds or proposes to exceed these guidelines, the Director is required to promptly notify the Chair of the CGNC and the committee will review the facts and circumstances and determine whether such service would interfere with the Director's ability to devote sufficient time to fulfilling the Director's responsibilities to the company. Currently, none of the Directors serve on more than five public company boards, including the Select Comfort Board.

Chief Executive Officer Service on Other Boards. The Chief Executive Officer may not serve on more than two public company boards other than the Select Comfort Board of Directors.

Board and Committee Evaluations. The Board believes that the company's governance and the Board's effectiveness can be continually improved through evaluation of both the Board as a whole and its committees. The CGNC is responsible for annually evaluating effectiveness in these areas and reviewing the results and recommendations for improvement with the full Board.

Board Executive Sessions. Executive sessions or meetings of independent directors without management present will be held at least twice each year. At least one session will be to review the performance criteria applicable to the Chief Executive Officer and other senior managers, the performance of the Chief Executive Officer against such criteria, and the compensation of the Chief Executive Officer and other senior managers. Additional executive sessions or meetings of outside directors may be held from time-to-time as required. The Board's practice has been to meet in executive session for a portion of each regularly scheduled meeting of the Board. Any member of the Board may request at any time an executive session without the presence of management.

Paid Consulting Arrangements. The Board believes that the company should not enter into paid consulting arrangements with independent directors.

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

Share Ownership Guidelines for Executive Officers and Directors. The Board has established the stock ownership guidelines described below for executive officers and directors. For purposes of these guidelines, stock ownership includes the fair market value of (1) all shares of common stock owned outright, (2) unvested restricted stock and restricted stock units that are subject only to time-vesting, net of an assumed effective tax rate of 40%, and (3) vested stock options, net of an assumed effective tax rate of 40%. The fair market value of stock options shall mean the then-current market price less the exercise price. Unvested performance shares, whether in the form of restricted stock or restricted stock units, will not count toward stock ownership.

- *Executive Officer Ownership Guidelines*. The Chief Executive Officer is expected to achieve and maintain stock ownership equal to five times the Chief Executive Officer's base salary and each of the other executive officers is expected to achieve and maintain stock ownership equal to three times the executive officer's base salary. The executive officers are required to retain at least 50% of net shares after taxes from any grant until such time as the guideline is met.

- *Board Ownership Guidelines*. Within five years of joining the company's Board of Directors, each director is expected to achieve and maintain stock ownership equal to five times the director's annual cash retainer. Any director who has not achieved the foregoing ownership objective by the required time period will not be permitted to sell any shares except to the extent required to pay the exercise price, transaction costs and taxes applicable to the exercise of stock options or the vesting of restricted shares. Exceptions to these restrictions on sale of shares may be granted by the Board in its sole discretion for good cause shown by any director.

Prohibition of Hedging or Pledging of Shares. Under our policy with respect to trading in the company's securities, directors, officers and other employees whose duties regularly bring them into contact with confidential or proprietary information ("insiders") are prohibited from engaging in any form of hedging or monetization transactions involving the company's securities. In addition, insiders are prohibited from engaging in short sales of the company's securities and from trading in any form of publicly traded options, puts, calls or other derivatives of the company's securities. Insiders are also prohibited from engaging in any form of pledging of the company’s securities, including (i) purchasing company securities on margin; (ii) holding company securities in any account which has a margin debt balance; (iii) borrowing against any account in which company securities are held; or (iv) pledging company securities as collateral for a loan.

Conflicts of Interest. Directors are expected to avoid any action, position or interest which conflicts with an interest of the company, or that gives the appearance of a conflict. If any member of the Board becomes aware of any such conflicting or potentially conflicting interest involving any member of the Board, the director should immediately bring such information to the attention of the Chairman of the Board, the Chief Executive Officer and the General Counsel of the company.

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

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

Senior Management Depth and Development. The Chief Executive Officer reports to the Board, at least annually, on senior management depth and development, including a discussion of assessments, leadership development plans and other relevant factors.

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

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

Code of Conduct

We have developed and circulated to all of our employees a Code of Business Conduct addressing legal and ethical issues that may be encountered by our employees in the conduct of our business. Among other things, the Code of Business Conduct requires that our employees comply with applicable laws, engage in ethical and safe conduct in our work environment, avoid conflicts of interests, conduct our business with integrity and high ethical standards, and safeguard our company's assets. A copy of the Code of Business Conduct is included in the investor relations section of our website at *http://www.sleepnumber.com/sn/en/investor-relations*. We intend to disclose any amendments to and any waivers from a provision of our Code of Business Conduct on our website. The information contained in or connected to our website is not incorporated by reference into or considered a part of this Proxy Statement.

Employees are required to report any conduct that they believe in good faith violates our Code of Business Conduct. The Code of Business Conduct also sets forth procedures under which employees or others may report through our management team and, ultimately, directly to our Audit Committee (confidentially and anonymously, if so desired) any questions or concerns regarding accounting, internal accounting controls or auditing matters.

All of our employees are required to periodically certify their commitment to abide by our Code of Business Conduct. We also provide training in key areas covered by the Code of Business Conduct to help our employees to comply with their obligations.

Related Party Transactions Policy

The Board of Directors has adopted a written policy intended to ensure the proper approval and reporting of transactions between the company and any of its directors, nominees for director, executive officers or significant shareholders or entities or persons related to them that would be required to be disclosed by the company pursuant to Item 404 or Regulation S-K of the Federal securities laws. Under this policy, any proposed or existing related party transaction is subject to the approval or ratification of the Corporate Governance and Nominating Committee. A copy of the Related Party Transactions Policy can be accessed through our Investor Relations website at *http://www.sleepnumber.com/sn/en/investor-relations*. The information contained in or connected to our website is not incorporated by reference into or considered a part of this Proxy Statement. There were no related party transactions during the year ended December 31, 2016 and there are none currently contemplated.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS AND COMPENSATION DISCUSSION AND ANALYSIS

COMPENSATION COMMITTEE REPORT

The Management Development and Compensation Committee of the Board of Directors (the "Committee") has reviewed and discussed the following Compensation Discussion and Analysis (CD&A) with management and, based on this review and discussion, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Management Development and Compensation Committee

Brenda J. Lauderback, Chair
Daniel I. Alegre
Kathleen L. Nedorostek
Michael A. Peel

This Compensation Committee Report shall not be deemed to be "filed" with the Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended. Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, in whole or in part, this Compensation Committee Report shall not be incorporated by reference into any such filings.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis describes the key principles and programs used to determine the compensation of the named executive officers (NEOs) for fiscal 2016 (January 3, 2016 through December 31, 2016) and explains how the company's practices align with our pay for performance philosophy.

For fiscal 2016, our NEOs were:

NAME	PRINCIPAL POSITION
Shelly R. Ibach	President & Chief Executive Officer (CEO)
David R. Callen	Senior Vice President & Chief Financial Officer (CFO)
Andrew P. Carlin	Executive Vice President & Chief Sales and Service Officer
Suresh Krishna	Senior Vice President & Chief Operations, Supply Chain and Lean Officer
Andrea L. Bloomquist	Senior Vice President & Chief Product Officer

Our CD&A is divided into the following sections:

- Executive Summary
- Compensation Governance
- Compensation Framework and Actions
- Executive Compensation Tables

Executive Summary

Compensation Philosophy:

Select Comfort's executive compensation philosophy is to provide compensation opportunities that attract, retain and motivate talented key executives to deliver sustainable profitable growth. Our program generally consists of a fixed base salary, variable performance-based cash incentive and long-term equity awards including performance units and stock option grants. Our program is designed to align executive compensation with shareholder interests by:

- Linking annual incentive awards to the achievement of key financial, strategic and operational goals which closely correlate with shareholder value creation;
- Providing opportunities for company executives to earn meaningful performance-based equity incentive awards tied to the achievement of pre-established long-term (3 years) performance goals and stock price appreciation;
- Establishing performance goals with consideration for recent peer group and broader industry growth and earnings results and our strategic plan, with the objective of requiring above median performance for incentives to be earned at a level that would increase compensation above median; and
- Evaluating the effectiveness of compensation programs in motivating superior competitive performance when compared with both industry peers and other prestigious specialty retailers.

Annual cash and equity-based incentive compensation opportunity is directly tied to achievement of key financial, strategic and operating performance objectives. Specifically, the annual cash incentive is dependent on achieving an earnings before interest, income taxes, depreciation and amortization (adjusted EBITDA) performance objective and is awarded to motivate and reward performance of a large portion of the company's employee population, including the NEOs. As discussed below, the payout for 2016 was determined based on an Economic Adjusted EBITDA measure. The long-term equity-based awards are tied to growth in revenue (or net sales) and growth in net operating profit (NOP) (or operating income). As discussed below, in 2015, the Management Development and Compensation Committee (for the purposes of this report, the "Committee") added a return on invested capital (ROIC) objective to the program to ensure that payouts under the long-term equity-based awards are reduced for failure to generate returns that are sufficiently above the company's weighted average cost of capital (WACC). All standard annual and long-term incentive awards include performance thresholds that must be met for any payout to be issued.

2016 Performance and Incentive Payouts:

In 2016, the Enterprise Resource Planning Technology ("ERP") implementation impacted sales and costs in the first half of 2016. However, we recovered from these challenges in the back half of the year and demonstrated improved financial performance and stock price appreciation. Our 2016 one-year and three-year growth in revenue (or net sales), adjusted EBITDA, NOP (or operating income), and Total Shareholder Return (TSR)* is summarized below.

	2016 Growth	2014 - 2016 Growth CAGR
Revenue	8%	11%
Adjusted EBITDA	9%	5%
Net Operating Profit	2%	-5%
Total Shareholder Return	6%	2%

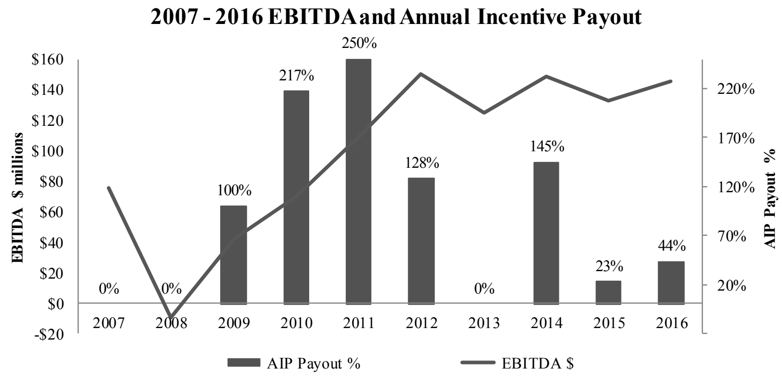
* Total shareholder return refers to the percentage change in the value of a shareholder's investment in the company over the relevant time period, as determined by dividends paid and the change in the company's share price during the period.

However, because these financial results were below the company's plans, both for the 2016 Annual Incentive Plan and the 2014-2016 Long-Term Incentive Plan, our compensation payouts were also below target:

- **2016 Annual Incentive Plan (AIP) payouts:** With actual Economic Adjusted EBITDA above the threshold, but below target, the AIP was earned at 43.7% of target for 2016. This decreased actual total cash compensation close to the 25th percentile of the market.

- **2014 Long-Term Incentive Awards, earned for 2014-2016 performance:** These awards were earned at 84.6% of target based on revenue and NOP growth for fiscal years 2014-2016. This payout reflected above-target performance on revenue growth and below-target performance for NOP growth resulting from strategically essential investments made in the business during this period in support of our long-term strategy.

As shown in the chart below, annual cash incentive payouts relative to adjusted EBITDA and NOP performance over a 10-year period reinforce our compensation philosophy and program design.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EBITDA Growth % (+/-)	-31%	-112%	NA	65%	57%	38%	-17%	19%	-10%	9%
NOP Growth % (+/-)	-40%	-260%	NA	153%	73%	39%	-28%	13%	-26%	2%

The three-year performance-vested long-term incentive program demonstrates a similar commitment to pay for performance alignment, as outlined below:

Grant Year Performance Period End	2011 2013	2012 2014	2013 2015	2014 2016	2015 2017	2016 2018
Performance Metric(s)	Market Share Free Cash Flow	Market Share	Revenue NOP Margin	Revenue Growth NOP Growth	Revenue Growth NOP Growth ROIC Modifier	Revenue Growth NOP Growth ROIC Modifier
3-Year Revenue Growth CAGR	17%	16%	9%	11%	TBD	TBD
3-Year NOP Growth CAGR	20%	4%	-16%	-5%	TBD	TBD
Final Payout % of Target	**85%**	**40%**	**20%**	**85%**	TBD	TBD

Performance-Vested RSU % of Total LTI Grant Value	50%	50%	50%	75%	75%	75%

* 2011 was the first year we granted performance-vested long-term incentive awards.

For discussion of the revenue growth and NOP margin growth targets and payouts under the 2014-2016 plan, see the company's 2016 proxy statement, filed with the SEC on April 1, 2016; for a discussion of the market share targets under the 2012-2014 plan, see the company's 2015 proxy statement, filed with the SEC on March 31, 2015, and for a discussion of the market share and free cash flow targets under the 2011-2013 plan, see the company's 2014 proxy statement, filed with the SEC on April 4, 2014.

Compensation Governance

Our compensation programs are structured to align the interests of our executive officers with the interests of our shareholders. They are designed to attract, retain and motivate a talented management team to deliver on the company's strategic and operational goals, capitalize on our competitive advantages and achieve sustainable profitable growth. Key objectives include:

- <u>Performance-Based Compensation</u>. We believe that linking pay to performance is critical, and as a result, we favor variable compensation that is tied to company performance. We target total direct compensation near the market median, with the opportunity to earn total direct compensation above the market median when company and/or individual performance exceeds performance objectives.

- Reward Company and Individual Achievement. In determining annual cash and equity incentive awards, emphasis is placed on achievement of specific company performance objectives. However, we may also recognize and reward superior individual performance, primarily through merit increases in base salaries and long-term equity awards.

- Emphasize Stock Ownership. We believe that employee stock ownership is critical in aligning the interests of employees with those of our shareholders. The company has established specific stock ownership guidelines for executive officers as well as for members of the Board of Directors. The company also provides opportunities for broader employee stock ownership through our long-term incentive plans and our 401(k) savings plan.

Practices and Policies

In order to meet the key objectives of our executive compensation program, the company has adopted a strong corporate governance framework with the following practices and policies that ensure alignment of interests between shareholders and executives.

COMPENSATION PRACTICE	SELECT COMFORT POLICY	
Pay for Performance	YES	A significant percentage of the total direct compensation package is performance-based.
Robust stock ownership guidelines	YES	We have stock ownership guidelines for executive officers and Board members. Executive officers & Directors are expected to achieve and maintain stock ownership of: • 5x base salary for the CEO • 3x base salary for non-CEO executive officers, and • 5x annual cash retainer for Board members Executives are required to hold 50% of the after-tax value delivered from LTI vesting and option exercise until meeting the guideline level of ownership. Directors are expected to achieve the guideline level of ownership within 5 years of the appointment to the Board. Unearned performance-vested awards are not included in the ownership calculation.
Annual Shareholder "Say on Pay"	YES	We value our shareholders' input on our executive compensation programs. Our Board of Directors seeks an annual non-binding advisory vote from shareholders to approve the executive compensation disclosed in our CD&A, tabular disclosures and related narrative of this proxy statement.
Annual compensation risk assessment	YES	A risk assessment of our compensation programs is performed on an annual basis.

Clawback policy	YES	Our policy allows recovery of incentive cash and earned equity compensation in the event of inaccurate financial statements or other actions that would constitute "cause" or "adverse action." In addition, certain participants are subject to automatic forfeiture in connection with material noncompliance, as a result of misconduct, resulting in an accounting restatement.
Independent compensation consultant	YES	The Management Development and Compensation Committee retains an independent compensation consultant to advise on the executive compensation program and practices.
Double-Trigger Vesting	YES	An executive officer's unvested equity awards will vest upon a change in control only if the executive also experiences a qualifying termination of employment or significant diminution in role.
Hedging of Company stock	NO	Executive officers and members of the Board of Directors may not directly or indirectly engage in transactions intended to hedge or offset the market value of Select Comfort common stock owned by them.
Pledging of Company stock	NO	Executive officers and members of the Board of Directors may not directly or indirectly pledge Select Comfort common stock as collateral for any obligation.
Tax gross-ups	NO	We do not provide tax gross-ups on any benefits or perquisites, other than for relocation benefits that are applied consistently for all employees.
Repricing of stock options	NO	Our equity incentive plan does not permit repricing of stock options without shareholder approval or the granting of stock options with an exercise price below fair market value.
Employment contracts	NO	None of our current named executive officers has an employment contract that provides for continued employment for any period of time.

Shareholder Engagement

As part of its commitment to strong corporate governance, the company's management team and its Board of Directors maintain an active shareholder relations effort and welcome shareholder feedback. During the past year, we conducted shareholder meetings and calls that included direct shareholder contact with board members. These discussions addressed a variety of topics that are important to our business, including company strategy, financial performance, capital allocation, corporate governance and executive compensation. We appreciate the opportunity to hear from our shareholders on relevant business topics and engage in open dialogue with them. These conversations, as well as our strong commitment to pay for performance, will continue to inform the Management Development and Compensation Committee's decisions related to executive compensation in 2017 and beyond.

Board Compensation Committee and Independent Consultant

The Committee is comprised entirely of independent, non-employee directors. The responsibilities of the Committee include:

- Review and approve the company's compensation philosophy
- Establish executive compensation structure and programs designed to motivate and reward superior company performance
- Lead the Board of Directors' annual process to evaluate the performance of the Chief Executive Officer
- Determine the composition and value of compensation for the Chief Executive Officer and other executive officers including base salaries, annual cash incentive awards, equity-based awards, benefits, and perquisites
- Establish, administer, amend and terminate executive compensation and major employee benefit programs
- Assess management development progress and talent depth, organizational strategy, and succession planning for key leadership positions in the context of the company's strategic, operational and financial growth objectives
- Establish structure and amount of non-employee director compensation

Under its charter, the Committee has the authority to retain and consult with independent advisors to assist in fulfilling these responsibilities and duties. To maintain the independence of these advisors, use by the company of any of these advisors for work other than that expressly commissioned by the Committee must be approved in advance by the Committee.

Since fiscal 2013, the Committee has retained the firm of Frederic W. Cook & Co., Inc. ("FW Cook") as its independent compensation consultant. At the Committee's request, FW Cook provided information addressing its independence as well as the independence of its individual advisors, including the following disclosures:

- any other services it provides to the company;
- fees paid by the company as a percentage of the consulting firm's total revenue;
- policies and procedures adopted by the consulting firm to prevent conflicts of interest;
- any business or personal relationships between the individual compensation advisors and a member of the Committee;
- any company stock owned by the individual compensation advisors; and

- any business or personal relationships between Select Comfort's executive officers and the individual compensation advisors or consulting firm.

The Committee assessed these factors in light of SEC rules and NASDAQ listing standards and concluded that no conflict of interest or independence concerns exist in the engagement of FW Cook as Select Comfort's independent compensation consultant.

In the course of its engagement, the independent compensation consultant:

- Provides on-going assessment of each of the principal elements of the company's executive compensation program;

- Advises the Committee on the design of both the annual cash incentive plan and the long-term equity incentive program;

- Works with the Committee and representatives of senior management to assess and refine the company's peer group for ongoing comparative analysis purposes;

- Provides the Committee with updates related to regulatory and legislative matters;

- Reviews market data, trends and analyses from general industry and proxy peer group surveys to inform executive compensation levels and design; and

- Provides advice and guidance to the Committee on pay actions for executives.

The Committee usually meets four to six times per year in person, or by telephone conference as needed. The Chair of the Committee works with members of our senior management team and with the Committee's independent compensation consultant to determine the agenda for each meeting. Following the development of the agenda, members of senior management and our human capital function, along with the Committee's independent compensation consultant, prepare materials for each meeting of the Committee. These materials are typically reviewed with the Chair of the Committee in advance of distribution to the entire Committee. Our Chief Executive Officer, other members of our management team involved in the development and administration of our compensation programs and the Committee's independent compensation consultant may be invited to attend all or a portion of a Committee meeting, depending on the nature of the agenda. The Committee also typically meets in executive session without any members of management present.

Neither our Chief Executive Officer nor any other member of our management team votes on any matters before the Committee. The Committee, however, solicits the views of our Chief Executive Officer on compensation matters generally, other than her own, and particularly with respect to the compensation of members of the senior management team reporting to the Chief Executive Officer. The Committee also solicits the views of other members of senior management and the company's human capital department on topics related to key compensation elements and broad-based employee benefit plans.

Benchmarking Using Compensation Peer Groups

In determining each executive's annual total direct compensation, the Committee considers peer group market positioning, utilizing relevant market data developed by management and reviewed by FW Cook. The market data are developed from the Towers Watson Compensation Data Bank (CDB), General Industry Executive Compensation Survey Report and from compensation data obtained from publicly available proxy statements for an industry peer group.

The Committee, in consultation with FW Cook, annually reviews the composition of the industry peer group to ensure that the included companies are appropriate in terms of size and business focus. The selected peer group generally consists of publicly traded industry competitors, as well as a representative group of similarly sized companies involved in development, manufacturing and/or retailing of home furnishings and other consumer durable products, with which we compete for talent and for shareholder investments. In order to ensure that our peer group includes companies of appropriate size and scope, we generally aim to select peers that have net sales, EBITDA and market capitalization within a range of one-half to two times our own net sales, EBITDA and market capitalization. The Committee prefers to limit the amount of change to the peer group year-over-year, however, changes may be necessary to address industry merger and acquisition activity and/or significant shifts in peer business strategy.

The following 16 publicly traded companies comprise our current peer group for benchmarking executive compensation:

- Container Store Group, Inc.
- Columbia Sportswear Co.
- Deckers Outdoor Corp.
- Ethan Allen Interiors Inc.
- Express Inc.
- Haverty Furniture Companies Inc.
- Kate Spade & Company
- Kirkland's Inc.
- La-Z-Boy Inc.
- Lumber Liquidators Holdings Inc.
- Mattress Firm Holding Corp.
- Pier 1 Imports Inc.
- Restoration Hardware Holdings Inc.
- Steven Madden Ltd.
- Tempur Sealy International Inc.
- Vitamin Shoppe Inc.

Compensation Risk Assessment

The company has established an annual process to assess whether its compensation practices are reasonably likely to have a material adverse effect on the company. This process includes:

- Compilation of a comprehensive inventory of the company's compensation policies, practices and programs;
- Identification of potential areas of risk by members of a cross-functional team, comprised of internal company representatives from Legal, Human Capital and Risk Management;
- Review of compensation programs in light of risks identified;
- Review of plans and controls in place to mitigate potential risks;

- Review of the assessment process and cross-functional team's conclusions by FW Cook; and
- Review of the assessment process and conclusions by the Committee with members of the senior management team and FW Cook representatives.

Based on this assessment, the company has determined that none of its compensation policies, practices or programs is reasonably likely to have a material adverse effect on the company.

Results of 2016 Advisory Vote to Approve Executive Compensation

We welcome communication with shareholders and value their viewpoints. At our 2016 Annual Meeting, our shareholders approved our Say on Pay proposal in support of our executive compensation program, with more than 99 percent of the votes cast by our shareholders on this proposal in favor of the "say on pay" vote (excluding broker non-votes). The Committee believes that these voting results affirm shareholder support of our approach to executive compensation.

Compensation Framework and Actions

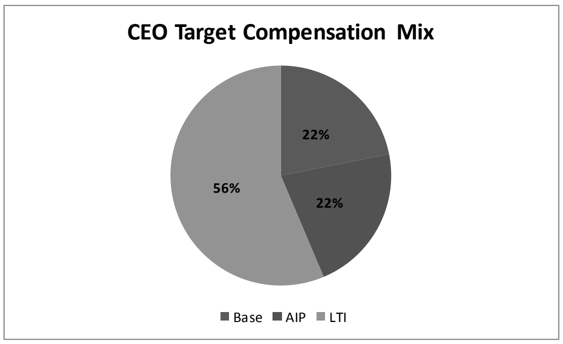
Compensation Program Elements and 2016 Actions

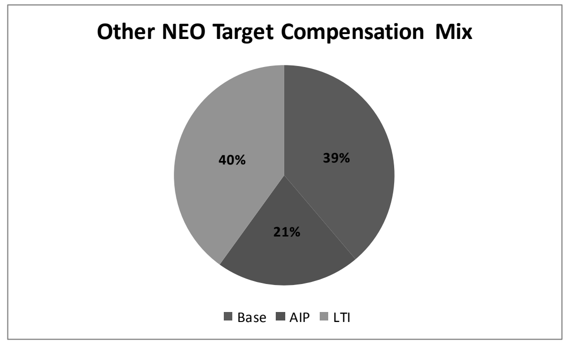
Our executive compensation program is designed to attract, motivate, reward and retain the senior management talent required to achieve our corporate objectives and create long-term value for our shareholders. We do not have employment agreements with any of our executive officers that provide for continued employment for any period of time. Our program currently consists of the following key elements:

- Base salary;
- Annual cash incentive compensation;
- Long-term equity-based incentive compensation;
- Non-qualified deferred compensation plan;
- Broad-based benefit plans available to other employees generally;
- Limited perquisites; and
- Severance compensation upon termination of employment under certain circumstances.

With the assistance of FW Cook, the Committee uses target and actual payouts for incentive compensation to value the total compensation of executive officers and assess its competitive positioning. This competitive analysis is just one factor considered when making compensation decisions. However, the Committee generally seeks to align target compensation opportunities with the median of the market, while providing opportunity for top quartile compensation for performance above target and below median compensation for performance below target. Additionally, performance goals are set with consideration for historical peer group growth levels, with the goal of ensuring that above target payouts require performance above the median of the peer group.

The target compensation mix for NEOs is substantially weighted towards performance oriented programs that only deliver value if the Company meets pre-determined performance goals. The Annual Incentive Plan focuses NEOs on achievement of the financial plan for the year. The long-term incentive plan provides alignment with shareholders and focuses NEOs on long-term growth in revenue and NOP. For the CEO and Other NEOs respectively, 78% and 61% of target compensation is weighted towards these performance-oriented programs (i.e., only 22% and 39% of target compensation is delivered in salary for CEO and Other NEOs respectively).





Base Salary. Base salary for executive officers is a fixed compensation component that is reviewed annually and adjusted as appropriate. When making base salary decisions, the Committee considers the external market data as well as a variety of internal criteria, including:

- the scope and complexity of each officer's responsibilities;
- each executive officer's qualifications, skills and experience;
- internal pay equity among senior executives; and
- individual job performance, including both impact on current financial results and contributions to building longer-term competitive advantage and shareholder value.

No specific formula or weight is applied to the various criteria considered.

The Compensation Committee also considered the following factors when making the salary adjustments for 2016 that are noted in the table below:

- Under the current leadership, the company has significantly transformed its retail operations, introduced product innovation and improved its marketing effectiveness, in support of its long-term strategy.
- Mr. Callen's salary is below the median of the market, and the Committee increased salary by 5% to align more closely with competitive benchmarks.

- Mr. Carlin's adjustment reflects the increased responsibility tied to his promotion to EVP Chief Sales and Service Officer.

($000s)

Name	Title	Salary		
		2015	2016	% Increase
Shelly R. Ibach	President and CEO	$800	$815	1.9%
David R. Callen	SVP and CFO	$384	$404	5.0%
Andrew P. Carlin	EVP, Chief Sales and Service Officer	$380	$426	12.0%
Suresh Krishna	SVP, Chief Operations, Supply Chain and Lean Officer	n/a	$390	n/a
Andrea L. Bloomquist	SVP, Chief Product Officer	$390	$406	4.0%

Salaries above are represented at the annual rates effective March 29, 2015 and March 27, 2016, with the exception of Mr. Carlin's promotional increase with effective date of April 10, 2016. Mr. Krishna's first day of employment was April 11, 2016. These values are different from the Summary Compensation Table, which represents actual salary earned.

<u>*Annual Cash Incentive Compensation*</u>. Consistent with the company's performance-based compensation philosophy, the opportunity to earn an annual cash incentive is designed to motivate performance at or above the company's targeted annual financial objectives. Achievement of these results delivers compensation near the market median. Total compensation can exceed the median for above-target performance or fall below median for below-target performance. The annual cash incentive program is awarded to motivate and reward performance of a large portion of the company's employee population, including NEOs.

Each fiscal year, the Committee manages three principal elements of the annual cash incentive plan, including:

- <u>Performance Goals</u>. The Committee determines both the type and the specific targets of the performance goals for each fiscal year. Since 2001, the Committee has selected an annual profit metric as the primary company performance measure based on its belief that a measure of profitability provides a balanced focus on both net sales growth and improved bottom line performance. For 2016, the Committee continued to use Adjusted EBITDA (earnings before interest, taxes, depreciation & amortization) as the profit metric for the Annual Incentive Plan based on the following:

  - Belief that Adjusted EBITDA is a useful indicator of the company's financial performance and ability to generate cash from operating activities.

  - Commitment to align the company's annual incentive program with operating performance and cash generation.

  - Desire to diversify the portfolio of performance metrics in recognition of NEOs accountability for both revenue and NOP growth in the Long-Term Incentive plan.

  We define earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) as net income plus: income tax expense, interest expense, depreciation and amortization, stock-based compensation and asset impairments (as detailed in our quarterly and annual financial filings). For a description of how we calculate Adjusted EBTIDA from Net Income, see "Non-GAAP Data Reconciliations" on page 23 of the company's Annual Report on Form 10-K filed on February 24, 2017. For a description of how we calculate

Adjusted EBTIDA from Net Income, see "Non-GAAP Data Reconciliations" on page 23 of the company's Annual Report on Form 10-K filed on February 24, 2017.

Starting in 2015, we measured Adjusted EBITDA for the Annual Incentive Plan by considering the full value of both revenue and expenses related to SleepIQ® technology in the year of the transaction ("Economic Adjusted EBITDA"). This "economic value" of SleepIQ revenue and expenses is different than the GAAP accounting treatment to defer these amounts and recognize them over the products' estimated useful life. We use this Economic Adjusted EBITDA for the following reasons:

- To maintain consistency with our broad-based retail compensation plans, which provide commissions aligned with the date of the sales transaction.
- To motivate and align employees in support of the company's strategic initiative to activate SleepIQ® accounts and advance the brand.

In 2017, the Committee has determined it will no longer use "economic value" treatment in future awards. Historically, the majority of SleepIQ revenues were generated through an optional add-on by customers purchasing a mattress. Using the "economic value" approach in 2015 and 2016 provided valuable incentive to successfully launch and advance the Sleep IQ brand. Starting in 2017, we will use the GAAP accounting treatment of SleepIQ revenue and expenses for the Annual Incentive Plan because SleepIQ technology will be automatically included as part of our new Sleep Number 360™ smart bed and no additional incentive is needed to activate Sleep IQ accounts.

See below for a reconciliation of the 2016 Adjusted EBITDA as reported in our 2016 Annual Report on Form 10-K and the Economic Adjusted EBITDA we use for the Annual Incentive Plan ($000s).

	December 31, 2016
Adjusted EBITDA	$ 145,689
Economic adjustment	16,080
Economic Adjusted EBITDA	$ 161,769

See "Non-GAAP Data Reconciliations" on page 23 of the company's Annual Report on Form 10-K filed on February 24, 2017 for a reconciliation of Adjusted EBTIDA to Net Income.

In order to maintain focus on near-term, critical business objectives, cash incentive payments were based in part on semi-annual performance versus targets derived from the annual operating plan, with the opportunity to realize up to 50 percent of pro-rated target cash incentive levels for achievement of semi-annual performance objectives for the first half of the year. To maintain a strong continuing incentive, if the semi-annual target was not achieved, the opportunity remained to earn the full-year bonus if the full-year target was achieved.

The Economic Adjusted EBITDA target is approved by the Committee with consideration for performance *after* deduction of all annual cash incentive payments.

- Target and Actual Incentive Levels. For 2016, Ms. Ibach's target incentive level was maintained at 100 percent of base salary (unchanged since 2013), and target incentive levels were also maintained at 60 percent for Executive Vice Presidents and 55 percent for Senior Vice Presidents. These target incentive levels are reviewed annually in comparison with the peer group and general industry market data identified above.

  The table below provides detail for the 2016 target incentive and target total cash compensation levels for NEOs, as well as consideration for actual cash compensation with the 43.7% of target payout for 2016 performance. Both outcomes are consistent with our compensation payout philosophy, which is to pay close to the median of the market for target performance, and close to 25th percentile for performance that is close to threshold. With the 2016 payout of 43.7% of target, cash compensation (base and annual incentive) was close to the 25th percentile of the market.

($000s)

Name	Title	2016 Annual Target Cash			2016 Actual Total	
		Annual Incentive Target		Target Total	Annual	Actual Total
		% of Salary	$	Cash	Incentive $	Cash
Shelly R. Ibach	President and CEO	100%	$812	$1,627	$355	$1,170
David R. Callen	SVP and CFO	55%	$220	$623	$96	$500
Andrew P. Carlin	EVP, Chief Sales and Service Officer	55% / 60%	$243	$669	$106	$532
Suresh Krishna	SVP, Chief Operations, Supply Chain and Lean Officer	55%	$215	$605	$70	$460
Andrea L. Bloomquist	SVP, Chief Product Officer	55%	$221	$627	$97	$502

* Cash compensation numbers above represent annualized pay levels for both target and actual. These values may differ from the Summary Compensation Table, which represents actual salary earned for the year. Suresh Krishna total cash payout for 2016 was the full target amount of $215k because he was guaranteed this payout in his first year of employment. The Summary Compensation Table shows the incremental payment of $144k as a discretionary bonus. Andy Carlin's target bonus % was increased from 55% of salary to 60% of salary when he was promoted to EVP on April 11, 2016, and this higher target bonus % applied to earnings after his promotion date.

- Leverage Curve of the Annual Cash Incentive Payout. The Committee seeks to set the leverage curve of the annual cash incentive payout, or the percentage of incremental Economic Adjusted EBITDA that is used to fund the overall annual incentive pool, in a manner that both provides a strong motivation for achievement of stretch performance objectives and a reasonable sharing rate of incremental Economic Adjusted EBITDA. Our plan provides for up to 250 percent of target payout opportunity for maximum Economic Adjusted EBITDA performance, and no payout if threshold levels of Economic Adjusted EBITDA are not achieved.

  For the first half of the year, Economic Adjusted EBITDA (before incentive payout) of $72.5 million exceeded our semi-annual target of $72.2 million, and we therefore paid the 50% of the target opportunity for the first half of the year. The table below provides the details for this payout for each NEO ($000s):

Full Name	Position Name	First Half Eligible Earnings	Target AIP %	First Half Target AIP $	Actual Payout: 50% of First Half Target $
Shelly R. Ibach	President and CEO	$404	100%	$404	$202
David R. Callen	SVP and CFO	$197	55%	$109	$54
Andrew P. Carlin*	EVP, Chief Sales and Service Officer	$201	55%/60%	$116	$58
Suresh Krishna	SVP, Chief Operations, Supply Chain and Lean Officer	$90	55%	$50	$25
Andrea L. Bloomquist	SVP, Chief Product Officer	$199	55%	$110	$55

* Mr. Carlin was promoted to EVP on April 10, 2016, and his target AIP was increased from 55% of salary to 60% of salary for eligible earnings for the remainder of the fiscal year.

For the full-year 2016, our actual Economic Adjusted EBITDA (after deduction of annual incentive expense) of $162 million was below our target of $177 million and above our threshold of $156 million. This performance between threshold and target resulted in a total Annual Incentive payout of 43.7% of target (inclusive of the mid-year progress payment referenced above). The table below provides more detail for the performance goals used to determine this result ($ millions):

	Payout	Economic Adjusted EBITDA After Annual Incentive Payout	
		$	% Growth
Threshold	20%	$156	10%
Actual Performance	**43.7%**	**$162**	**14%**
Target	100%	$177	25%
Maximum	250%	$213	50%

The table below reflects the total Annual Incentive Payout for the full year at 43.7% of target as well as the incremental payments made at year-end, in excess of the mid-year payouts ($000s).

Full Name	Position Name	Target AIP %	Full Year Target AIP $	Full-Year Actual Payout at 43.7% of Target	End of Year Payout (Net of Mid-Year)
Shelly R. Ibach	President and CEO	100%	$812	$355	$153
David R. Callen	SVP and CFO	55%	$220	$96	$42
Andrew P. Carlin*	EVP, Chief Sales and Service Officer	55%/60%	$243	$106	$49
Suresh Krishna**	SVP, Chief Operations, Supply Chain and Lean Officer	55%	$161	$70	$46
Andrea L. Bloomquist	SVP, Chief Product Officer	55%	$221	$97	$42

* Mr. Carlin was promoted to EVP on April 10, 2016, and his target AIP was increased from 55% of salary to 60% of salary for eligible earnings for the remainder of the fiscal year.
** Mr. Krishna was guaranteed a full year target AIP payout in his offer letter. Accordingly, a discretionary bonus in the amount of $144k was paid at year-end in order to increase the total payout to the $215k, which is equal to his full year target AIP.

Long-Term Equity-Based Incentive Compensation. The company makes long-term, equity-based incentive compensation grants to its executive officers and other employees to align their interests with those of our shareholders, as well as to provide total compensation that is competitive in the marketplaces in which the company competes for top talent. The Committee seeks to grant equity awards designed to provide total direct compensation that is near the market median, with the potential for greater earnings when the company outperforms its long-term performance targets and the potential for lower earnings in the event the company underperforms its performance targets. As the company offers no pension plan, this equity-based pay component is an important enabler of retirement security for executives and other employees who have dedicated a significant portion of their working careers to our business.

Executive officers and other key employees are eligible for equity-based grants upon joining the company and thereafter on an annual basis. In determining the economic value of equity awards to be granted to executive officers, the Committee considers primarily the competitive position of each executive officer's targeted total direct compensation, including the current value of proposed equity awards, in relation to market data. The Committee also considers a variety of other factors, including:

- recent organizational performance relative to the peer group,
- individual performance, including levels of responsibility, and the individual's impact on current results and our long-term competitive position,
- prior awards, including the number of shares awarded and the accumulated "holding power" of unvested equity to motivate both performance and retention, and
- the dilutive impact of equity awards in relation to market data.

The company has historically granted both (i) stock option awards with an exercise price equal to the fair market value on the date of grant, typically vesting ratably over a period of years, and (ii) "performance shares" subject to adjustment based on actual performance versus targets established at the date of grant. The only exceptions have been for new hires and promotions, both of whom typically receive a special award of restricted stock units that vest for continued service over a period of three years. These awards encourage retention and shareholder alignment, as well as provide an up-front equity stake upon hire for new executives.

For the 2016 long-term incentive program, the Committee continued to grant 75% of the annual award value in performance-vested RSUs, with the remaining 25% in stock options. See "Grant of Plan-Based Awards" table below. These grants were approved by the Committee in March 2016. Grant value for Ms. Ibach increased slightly (5%, from \$2.0 million to \$2.1 million) to align with the median of the market, and annual grant values for other Named Executive Officers remained flat to 2015, with the exception of Mr. Callen's award which increased from \$300,000 to \$400,000 in order to align closer to the median of the market and other NEOs.

Total direct compensation for NEOs was aligned with the median of the market. The table below provides detail for total grant value of long-term incentives (LTI) awarded in 2015 and 2016, as well as the resulting 2016 Target total direct compensation (sum of base salary, value of target annual incentive opportunity and the grant value of LTI).

($000s)

Name	Title	LTI Target Grant Value (Annual Award)			
		2015	2016	% Increase	2016 Target TDC
Shelly R. Ibach	President and CEO	$2,000	$2,100	5.0%	$3,727
David R. Callen	SVP and CFO	$300	$400	33.3%	$1,023
Andrew P. Carlin	EVP, Chief Sales and Service Officer	$400	$400	0.0%	$1,069
Suresh Krishna	SVP, Chief Operations, Supply Chain and Lean Officer	n/a	$500	n/a	$1,105
Andrea L. Bloomquist	SVP, Chief Product Officer	$400	$400	0.0%	$1,027

LTI grant values are converted to a number of shares using a 20-day average stock price leading up to date of grant in order to mitigate short-term stock price volatility. As such, values in the table above are different from the grant date fair values in the Summary Compensation Table.

Performance-vested share payouts and grants.

2014 Performance-Vested Shares: The performance-vested units granted in 2014 were earned at 84.6% of target based on annual growth during each of 2014 – 2016 in revenue and net operating profit (NOP), and determining the average of each measure. The shares earned are scheduled to vest in full on the third anniversary of the grant date (March 28, 2017). Revenue (or net sales) and NOP (or operating income) are both GAAP measures as reported in the company's Annual Report on Form 10-K.

Revenue and NOP are equally weighted. This plan is a full three-year performance plan. There is no payout, if any, until the end of the three-year period and the percentage growth goals (e.g. "performance levels") are determined at the beginning of the performance period and are not changed. The performance levels indicated below are applied to each prior year actual revenue and NOP outcome to develop the goals for each year of the three-year performance period. Each year growth in both revenue and NOP is measured to determine a total of six performance scores over the three-year period (i.e., three scores for revenue growth and three scores for NOP growth each year).

Performance Level	Payout	Revenue	NOP
Below Threshold	0%	<4%	<4%
Threshold	50%	4%	4%
Target	100%	7%	9%
Max	200%	15%	20%

The three revenue scores are averaged to determine the revenue payout for the three-year period, and the three NOP scores are averaged to determine the NOP payout for the three-year period. Each of the revenue and the NOP scores are weighed 50%. The table below provides detail for the performance results used to determine the 84.6% of target payout for the 2014 – 2016 performance period. The payout was positively influenced by strong revenue growth well-above peer group median levels, and negatively impacted by NOP performance in 2015 and 2016 due largely to ERP implementation impacts and strategic investments made to support our long-term strategy.

Year	Revenue - GAAP			NOP - Excluding ERP Launch Cost*		
	$	Growth	Perf Score	$	Growth	Perf Score
2013	$960			$91		
2014	$1,157	20.5%	**200%**	$102	12.2%	**129%**
2015	$1,214	4.9%	**65%**	$87	-14.8%	**0%**
2016	$1,311	8.0%	**113%**	$77	-11.5%	**0%**

	Revenue	NOP
Average	**126%**	**43%**
Weighting	**50%**	**50%**

Total Payout % of Target	**84.6%**

*NOP excludes 2015 ERP Launch Costs of $11.6 million, including the one-time expenses for system training and implementation. This adjustment ensures that both 2015 and 2016 annual NOP growth rates accurately reflect the performance of the underlying business, rather than the impact of one-time, non-recurring expenses. This adjustment ultimately did not change the payout for the award (i.e., the payout would have still been 84.6% if 2015 performance had been measured inclusive of the $11.6 million in ERP Launch Costs).

2016 Performance-Vested Shares: The performance-vested units granted in 2016 follow a similar structure as the 2014 awards described above. Performance units will be earned based on annual growth in Revenue and NOP, equally weighted, through 2018, and will vest in March 2019 depending on performance achievement. Performance below the defined threshold would result in a payout of zero. The maximum payout is 200 percent of the target number of units granted. The Committee also added a Return on Invested Capital (ROIC) objective to the program in 2015 to ensure that payouts are reduced for failure to generate returns that are sufficiently above the company's Weighted Average Cost of Capital (WACC). If three-year average ROIC does not exceed WACC by a pre-defined threshold level, then the final payout will be reduced by a minimum of 5% and a maximum of 20% of the target number of units. See "Non-GAAP Data Reconciliations" in the company's Annual Report on Form 10-K filed on February, 24, 2017 for more details on how we calculate ROIC.

The Committee incorporated ROIC for the following reasons:

- Belief that ROIC is a useful indicator of our financial performance and ability to generate appropriate returns from our capital investments.

- ROIC objective ensures that we are investing capital efficiently to generate both net sales growth and NOP growth over the long-term.

As financial stewards of the company's assets, both Management and the Board are committed to deploying capital in a prudent and efficient manner in order to generate a superior return for shareholders.

2016 Special LTI Award: Consistent with our compensation philosophy and historical practices, the Committee also granted a special award to Mr. Carlin on April 10, 2016, the effective date of his promotion to Executive Vice President, Chief Sales and Service Officer. This award, valued at $350,000, was granted in Restricted Stock Units that will vest in full on the third anniversary of grant (i.e., 3-year cliff vest). In making this award, the Committee recognizes Mr. Carlin's additional responsibilities, which now includes delivery of our product with the Field Services team. In addition, the grant reinforces the company's confidence in Mr. Carlin's leadership and strengthens executive alignment with shareholders. *(LTI grant values are converted to a number of shares using a 20-day average stock price leading up to date of grant in order to mitigate short-term stock price volatility. As such, the value referenced above are different from the grant date fair values in the Summary Compensation Table.)*

New Hire Awards: Consistent with our compensation philosophy and approach, the Committee granted one-time new hire awards to Mr. Krishna in 2016. These awards are provided for the following reasons:

- Up-front equity stake that aligns the executive with shareholders and provides retention with vesting for continued service over a period of three years.
- Appropriate incentive for the executive to make the transition to the new role, given that unvested long-term incentive value may be forfeited upon departure from previous role.
- Consistent with standard market practices.

The awards granted to Mr. Krishna, effective on April 11, 2016, his first day of employment, are in addition to the annual awards described in the table on page 44. They include:

- Signing Bonus delivered in RSUs with a grant value of $100,000 and vesting on the first anniversary of the grant date.
- New Hire RSUs with a grant value of $500,000 and a two-year ratable vesting period (50% on each of the first two anniversaries of the grant date).
- Stock options with both performance-vest and service-vest requirements and a grant value of $312,000. The performance condition stipulates that the award is earned for a stock price that exceeds $27.00 for 20 consecutive trading days at any point in the 10-year term of the option, while the service condition is met on the third anniversary of the grant date.

  (LTI grant values are converted to a number of shares using a 20-day average stock price leading up to date of grant in order to mitigate short-term stock price volatility. As such, the values referenced above are different from the grant date fair values in the Summary Compensation Table.)

Severance Compensation. In February of 2007, the Board adopted the Select Comfort Corporation Executive Severance Pay Plan (the "Severance Plan") to establish consistent severance benefits for senior executives upon termination of their employment by the company without cause or upon resignation for "good reason" as defined by the Severance Plan. The Severance Plan was also established to the bring the company's executive severance arrangements into compliance with IRS regulations issued under Internal Revenue Code Section 409A that apply to deferred compensation. Prior to the adoption of the Severance Plan some, but not all, of our senior executives were entitled to severance benefits pursuant to their employment offer letters. The Severance Plan provides more uniform benefits across the senior management team, including NEOs and others. No executive officer would be entitled to any severance compensation in excess of the benefits provided under the company's Severance Plan.

In developing the Severance Plan and determining the benefits payable under the Severance Plan, the Committee considered market data received from its independent compensation consultant relative to typical severance benefits and concluded that the benefits payable under the Severance Plan were generally at or below the market data.

Benefits under the Severance Plan are conditioned upon execution and delivery to the company of a general release of claims and return of any company property. In addition, in the event the signed general release of claims is subsequently declared invalid or is revoked or attempted to be revoked, or in the event of a violation by the former executive of a non-compete or confidentiality agreement with the company, any unpaid severance compensation would be terminated. Each NEO has signed a non-compete agreement extending for one year following termination of employment and a confidentiality agreement of indefinite duration.

The Severance Plan establishes severance benefits payable to the CEO and other executive officers upon termination of their employment by the company without cause or upon resignation for good reason. Specifically, the CEO would be entitled to a base amount of severance pay equal to:

- two times the sum of annual base salary and annual target cash incentive, plus
- a pro rata target cash incentive for the year of termination.

Each of the other NEOs would be entitled to a base amount of severance pay equal to:

- one times the sum of annual base salary and annual target cash incentive, plus
- a pro rata target cash incentive for the year of termination.

The base severance compensation would be paid in a lump sum within a reasonable time following the employee's termination of employment and in no event later than March 1 of the year following the year during which the termination occurs. None of the amounts payable under the Severance Plan are subject to any "gross-up" for tax purposes in the event of the applicability of any excise or similar taxes.

In addition to the base severance compensation described above, the Severance Plan provides for reimbursement of the cost of "COBRA" medical and dental continuation coverage, less the amount paid by an active full-time employee for the same level of coverage, until the earlier of:

- the end of the period of time reflected in the base severance compensation (i.e., two years for CEO and one year for the other NEOs);
- the end of the participant's eligibility for COBRA continuation coverage; or
- the date the participant becomes eligible to participate in another group medical plan or dental plan.

The Severance Plan also provides for outplacement services in an amount up to $15,000 for the CEO and up to $10,000 for other senior executives.

No severance payment would be triggered solely by a change-in-control of the company. The Severance Plan does provide, however, that during a 24-month period following a change-in-control of the company, the company may not terminate the Severance Plan and may not reduce the severance benefits payable to participants who are employed by the company immediately prior to the change-in-control. For additional information, see "Potential Payments to Named Executive Officers," below.

Non-Qualified Deferred Compensation Plan. As described in more detail on page 56 of this Proxy Statement, certain executive employees (for example, director level and above) may defer a portion of their compensation and defer payment of restricted stock unit awards under a non-qualified deferred compensation plan that offers a range of investment options similar to those available under our 401(k) plan. The company may also make discretionary employer credits to this plan although it has not elected to do so.

Benefits and Perquisites. Our executive officers generally receive the same menu of benefits offered to other full-time employees including, but not limited to, our 401(k) plan. After completing an eligibility service period, our employees who have attained age 21 are eligible to participate in our 401(k) plan. The 401(k) plan includes company stock as an investment option, providing another opportunity for our senior executives and other employees to build stock ownership in our company. The company has historically made discretionary matching contributions (at various levels) of a portion of employees' contributions to the 401(k) plan.

As the company provides no defined benefit pension plan, we believe the 401(k) plan and the non-qualified deferred compensation plan are important elements in retirement planning for executives and other eligible employees.

We generally avoid special executive perquisites. We do offer two executive benefits to senior management that are designed to address specific corporate purposes:

- Annual Physical Exam. Members of our senior management team are encouraged to annually undergo a comprehensive physical examination. The company offers several executive physical options, which generally range in cost from $2,300 to $4,000. These costs, after insurance coverage, are paid by the company and constitute taxable wages to the executive that are not "grossed up" for tax purposes. This benefit is designed to promote preventive care, enhance the health and wellness of senior management and to catch potential health issues at an early stage.

- Tax and Financial Planning. Members of our senior management team are eligible for reimbursement of expenses for tax and financial planning services up to $15,000 per year for the CEO and up to $8,000 per year for executive or senior vice presidents. Amounts reimbursed under this benefit represent taxable wages that are not "grossed up" for tax purposes. This benefit is designed to enhance financial planning, to avoid distraction of members of the senior management team and to promote tax compliance.

Chief Executive Officer Compensation and Performance

The compensation for Shelly R. Ibach, our President and Chief Executive Officer, consists of an annual base salary, annual cash incentive compensation and long-term equity-based incentive compensation. The Committee determines the level for each of these compensation elements using methods consistent with those used for the company's other senior executives, including the assessment of individual performance and review of competitive data. The Committee evaluates Ms. Ibach's performance by soliciting input from all members of the Board as well as members of the senior management team. The Board also assesses Ms. Ibach's performance against objectives incorporating key operational and strategic factors, including growth, profitability, product innovation, advancement of strategic initiatives, organizational development and investor relations. The CEO performance feedback from all independent Board members is consolidated into a detailed performance review which is the basis of a full Board discussion in Executive Session led by the Chair of the Committee. The Board's assessment of Ms. Ibach's performance is a major consideration in determining any compensation adjustments for the coming year.

Tax and Accounting Implications

Deductibility of Executive Compensation. Section 162(m) of the Internal Revenue Code requires that we meet specific criteria, including shareholder approval of certain stock and incentive plans, in order to deduct, for federal income tax purposes, compensation over $1 million per individual paid to our Chief Executive Officer and each of our three other most highly compensated executives (other than the Chief Financial Officer). Our equity-based incentive plans and our annual cash bonus plan are designed to permit the grant and payment of equity or cash incentive awards that are fully deductible as performance-based compensation under the Internal Revenue Code. In reviewing and adopting other executive compensation programs, the Committee plans to continue to consider the impact of Section 162(m) limitations in light of the materiality of the deductibility of potential benefits and the impact of such limitations on other compensation objectives. Because the Committee seeks to maintain flexibility in accomplishing the company’s compensation goals, however, it has not adopted a policy that all compensation must be fully deductible.

Summary Compensation Table

The following table summarizes the total compensation paid or earned by each of the named executive officers for the 2016 fiscal year ended December 31, 2016 (and for the 2015 and 2014 fiscal years if the individual was a named executive officer in those years, respectively). The details of our named executive officers' compensation are discussed in detail in the Compensation Discussion and Analysis beginning on page 28.

Name And Principal Position	Year	Salary ($)	Bonus[(6)(7)] ($)	Stock Awards[(1)(2)] ($)	Option Awards[(1)(3)] ($)	Non-Equity Incentive Plan Compensation[(4)(7)] ($)	All Other Compensation[(5)] ($)	Total ($)
Shelly R. Ibach President and CEO	2016	$814,615	---	$1,597,928	$493,284	$ 354,998	$ 23,205	$3,284,030
	2015	$779,231	---	$1,561,875	$484,356	$ 188,462	$ 12,700	$3,026,624
	2014	$697,846	---	$1,388,066	$260,799	$1,049,478	$ 20,360	$3,416,549
David R. Callen SVP and CFO	2016	$400,637	---	$ 304,346	$ 93,979	$ 96,034	$ 9,327	$ 904,323
	2015	$383,618	---	$ 234,240	$ 72,621	$ 52,257	$ 8,570	$ 751,306
	2014	$278,365	$173,329	$ 463,599	$ 68,600	$ 224,993	$193,197	$1,402,083
Andrew P. Carlin EVP, Chief Sales and Services Officer	2016	$415,369	---	$ 670,240	$ 93,979	$ 106,385	$ 8,025	$1,293,998
	2015	$354,728	---	$ 312,375	$ 96,855	$ 46,156	$ 7,950	$ 818,064
	2014	$324,607	---	$ 536,250	$ 88,898	$ 268,468	$ 12,147	$1,230,370
Suresh Krishna SVP and Chief Operations, Supply Chain and Lean Officer	2016	$285,000	$144,127	$1,059,989	$437,402	$ 70,373	$ 17,095	$2,013,986
Andrea L. Bloomquist SVP and Chief Product Officer	2016	$403,500	---	$ 304,346	$ 93,979	$ 96,718	$ 11,960	$ 910,503
	2015	$355,915	---	$ 312,375	$ 96,855	$ 45,563	$ 7,950	$ 818,658
	2014	$317,146	---	$ 536,250	$ 88,898	$ 262,146	$ 8,901	$1,213,341

(1) Reflects the aggregate grant date fair value of stock and option awards granted during fiscal years 2016, 2015 and 2014, computed in accordance with FASB ASC Topic 718. See Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, for a discussion of the relevant assumptions used in calculating these amounts.

(2) The "Stock Awards" column includes performance stock awards. The amounts included for the performance stock awards represent the grant date fair value assuming the achievement of the target performance award level. The following table presents the grant date fair value of the performance stock awards included in the "Stock Awards" column and the maximum grant date fair value of these awards assuming that the highest level of performance conditions would be achieved.

	2016		2015		2014	
	Grant Date Fair Value	Maximum Value	Grant Date Fair Value	Maximum Value	Grant Date Fair Value	Maximum Value
Ms. Ibach	$1,597,928	$3,195,857	$1,561,875	$3,123,750	$ 833,413	$1,666,826
Mr. Callen	$ 304,346	$ 608,692	$ 234,240	$ 468,480	$ 219,604	$ 439,208
Mr. Carlin	$ 304,346	$ 608,692	$ 312,375	$ 624,750	$ 284,142	$ 568,285
Mr. Krishna	$ 407,658	$ 815,317	---	---	---	---
Ms. Bloomquist	$ 304,346	$ 608,692	$ 312,375	$ 624,750	$ 284,142	$ 568,285

(3) The "Option Awards" column includes a market-based option award in 2016 for Mr. Krishna. The associated $312,625 grant date fair value included in the "Option Awards" column is also the maximum value of the award assuming that the market condition would be achieved. The market condition requires the company's closing stock price to exceed $27.00 for 20 consecutive trading days and can be achieved any time prior to April 11, 2026, subject to continuing employment.

(4) Represents annual incentive compensation earned under the AIP. See discussion in the Compensation Discussion and Analysis under the heading “Annual Cash Incentive Compensation.”

(5) All other compensation includes the costs of (i) reimbursement for personal financial planning and tax advice; (ii) company sponsored physical exam; and (iii) company contribution to the executive’s 401(k) account. For 2014, includes relocation reimbursements for Mr. Callen of $126,671 and the related tax gross-up of the relocation benefits of $60,085.

(6) In 2014, Mr. Callen received sign-on and discretionary relocation benefits.

(7) For 2016, Mr. Krishna was guaranteed a minimum payment equal to the target incentive level under the AIP. The amount in the Non-Equity Incentive Plan Compensation column reflects the amount that would have been earned under the plan if there had been no guarantee. The amount in the Bonus column reflects the difference between the guaranteed minimum payment and the amounts that would have been earned under the plan if there had been no guarantee. See discussion in the Compensation Discussion and Analysis under the heading “Annual Cash Incentive Compensation.”

Grant of Plan-Based Awards

The following table summarizes grants of equity and non-equity plan-based awards to each of the named executive officers during the 2016 fiscal year ended December 31, 2016.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)[8]
Shelly R. Ibach		$162,308	$811,538	$2,028,846							
	3/22/16[2]				7,051	84,951	169,902				$1,597,928
	3/22/16[5]								57,790	$18.81	$ 493,284
David R. Callen		$ 43,907	$219,537	$ 548,843							
	3/22/16[2]				1,343	16,180	32,360				$ 304,346
	3/22/16[5]								11,010	$18.81	$ 93,979
Andrew P. Carlin		$ 48,640	$243,200	$ 608,000							
	3/22/16[2]				1,343	16,180	32,360				$ 304,346
	3/22/16[5]								11,010	$18.81	$ 93,979
	4/11/16[7]							18,880			$ 365,894
Suresh Krishna		$214,500	$214,500	$ 536,250							
	4/11/16[2]				1,746	21,035	42,070				$ 407,658
	4/11/16[3]							5,610			$ 108,722
	4/11/16[4]							28,050			$ 543,609
	4/11/16[5]								14,310	$19.38	$ 124,777
	4/11/16[6]				30,500	30,500	30,500			$19.38	$ 312,625
Andrea L. Bloomquist		$ 44,220	$221,100	$ 552,750							
	3/22/16[2]				1,343	16,180	32,360				$ 304,346
	3/22/16[5]								11,010	$18.81	$ 93,979

(1) This represents the cash incentive opportunity for 2016 under the AIP. For all named executive officers except for Mr. Krishna, the actual amounts earned under this plan for 2016 are reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table. Except for Mr. Krishna, the threshold reflects the amount that would be payable under the plan if the minimum performance level is achieved for annual company-wide performance goals. If the minimum performance level for payment of the threshold amount is not achieved, then no annual incentive would be payable under the plan. For 2016, Mr. Krishna was guaranteed a minimum payment equal to the target incentive level and therefore the threshold and target amounts are the same. For Mr. Krishna, the amounts that would have been earned under the plan if there had been no guarantee are reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table and the difference between the guaranteed minimum payment and the amounts that would have been earned under the plan if there had been no guarantee are reflected in the Bonus column of the Summary Compensation Table. Grantees had the opportunity to realize up to 50 percent of pro-rated target incentive levels for achievement of semi-annual performance objectives for the first half of the year. See discussion in the Compensation Discussion and Analysis under the heading “Annual Cash Incentive Compensation.”

(2) These awards represent performance stock unit awards described in greater detail in the Compensation Discussion and Analysis under the heading, “Long-Term Equity-Based Incentive Compensation.” The target number of units may be adjusted based on company performance during the performance period which ends December 29, 2018 (fiscal 2018

year-end). The adjusted amount of the award then fully vests after three years from the grant date. If any dividends are paid on our common stock, the holders of the performance stock units awards would receive dividends at the same rate as paid to other shareholders if and when the performance stock unit award becomes fully vested.

(3) These awards represent restricted stock units which vest 100% on the one-year anniversary of the grant date, subject to continuing employment.

(4) These awards represent restricted stock units which vest one-half each year on each of the first two anniversaries of the grant date, subject to continuing employment.

(5) These awards represent stock options described in greater detail in the Compensation Discussion and Analysis under the heading, "Long-Term Equity-Based Incentive Compensation." These stock options have an exercise price equal to the closing trading price of the company's common stock on the grant date. The options become exercisable in installments of one-third of the options awarded on each of the first three anniversaries of the grant date. These options remain exercisable for up to 10 years from the grant date, subject to earlier termination upon certain events related to termination of employment.

(6) These awards represent market-based stock options described in greater detail in the Compensation Discussion and Analysis under the heading, "New Hire Awards." These stock options have an exercise price equal to the closing trading price of the company's common stock on the grant date. The options vest 100% on the third anniversary of the grant date, subject to continuing employment and achievement of the market condition. The market condition requires the company's closing stock price to exceed $27.00 for 20 consecutive trading days and can be achieved any time prior to April 11, 2026, subject to continuing employment. These options remain exercisable for up to 10 years from the grant date, subject to earlier termination upon certain events related to termination of employment.

(7) These awards represent restricted stock units which vest 100% on the three-year anniversary of the grant date, subject to continuing employment.

(8) Reflects the grant date fair value computed in accordance with FASB ASC Topic 718. The value for awards subject to market or performance conditions reflects the target payout.

Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the total outstanding equity awards for each of the named executive officers as of December 31, 2016.

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)[17]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)[17]
Shelly R. Ibach	9,700	---	$18.22	4/2/2017	---	---	---	---
	14,000	---	$10.63	11/27/2017	---	---	---	---
	6,610	---	$ 3.76	3/7/2018	---	---	---	---
	7,500	---	$ 0.79	6/18/2019	---	---	---	---
	27,375	---	$ 9.75	6/4/2020	---	---	---	---
	14,038	---	$17.34	5/11/2021	---	---	---	---
	17,900	---	$28.99	2/23/2022	---	---	---	---
	13,526	---	$25.99	6/1/2022	---	---	---	---
	41,950	---	$21.15	4/1/2023	---	---	---	---
	18,287	9,143[1]	$17.77	3/28/2024	---	---	---	---
	---	---	---	---	39,678[2]	$ 897,516	---	---
	---	---	---	---	37,225[3]	$ 842,030	---	---
	9,827	19,653[7]	$33.32	3/16/2025	---	---	---	---
	---	---	---	---	---	---	46,875[8]	$1,060,313
	---	57,790[9]	$18.81	3/22/2026	---	---	---	---
	---	---	---	---	---	---	84,951[10]	$1,921,592
David R. Callen	4,930	2,465[4]	$17.36	4/7/2024	---	---	---	---
	---	---	---	---	4,685[5]	$ 105,975	---	---
	---	---	---	---	10,702[6]	$ 242,079	---	---
	1,474	2,946[7]	$33.32	3/16/2025	---	---	---	---
	---	---	---	---	---	---	7,030[8]	$ 159,019
	---	11,010[9]	$18.81	3/22/2026	---	---	---	---
	---	---	---	---	---	---	16,180[10]	$ 365,992
Andrew P. Carlin	4,000	---	$ 3.76	3/7/2018	---	---	---	---
	10,500	---	$ 0.94	6/1/2019	---	---	---	---
	9,845	---	$ 9.75	6/4/2020	---	---	---	---
	200	---	$17.34	5/11/2021	---	---	---	---
	3,000	---	$28.99	2/23/2022	---	---	---	---
	4,165	---	$25.99	6/1/2022	---	---	---	---
	11,450	---	$21.15	4/1/2023	---	---	---	---
	6,233	3,117[1]	$17.77	3/28/2024	---	---	---	---
	---	---	---	---	13,528[2]	$ 306,003	---	---
	---	---	---	---	16,920[3]	$ 382,730	---	---
	1,965	3,930[7]	$33.32	3/16/2025	---	---	---	---
	---	---	---	---	---	---	9,375[8]	$ 212,063
	---	11,010[9]	$18.81	3/22/2026	---	---	---	---
	---	---	---	---	---	---	16,180[10]	$ 365,992
	---	---	---	---	18,880[11]	$ 427,066	---	---

Outstanding Equity Awards at Fiscal Year-End, continued

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($) (17)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (17)
Suresh Krishna	---	14,310(12)	$19.38	4/11/2026	---	---	---	---
	---	30,500(13)	$19.38	4/11/2026	---	---	---	---
	---	---	---	---	5,610(14)	$ 126,898	---	---
	---	---	---	---	28,050(15)	$ 634,491	---	---
	---	---	---	---	---	---	21,035(16)	$ 475,812
Andrea L. Bloomquist	3,000	---	$ 3.07	5/5/2018			---	---
	1,750	---	$ 0.94	6/1/2019	---	---	---	---
	13,125	---	$ 9.75	6/4/2020	---	---	---	---
	3,100	---	$17.34	5/11/2021	---	---	---	---
	3,000	---	$28.99	2/23/2022	---	---	---	---
	3,332	---	$25.99	6/1/2022	---	---	---	---
	11,450	---	$21.15	4/1/2023	---	---	---	---
	6,233	3,117(1)	$17.77	3/28/2024	---	---	---	---
	---	---	---	---	13,528(2)	$ 306,003	---	---
	---	---	---	---	16,920(3)	$ 382,730	---	---
	1,965	3,930(7)	$33.32	3/16/2025	---	---	---	---
	---	---	---	---	---	---	9,375(8)	$ 212,063
	---	11,010(9)	$18.81	3/22/2026	---	---	---	---
	---	---	---	---	---	---	16,180(10)	$ 365,992

(1) These stock options were granted on March 28, 2014 and vest one-third each year on each of the first three anniversaries of the date of grant, subject to continuing employment through the applicable vesting date.

(2) These performance stock units were granted on March 28, 2014 and vest 100% on March 28, 2017, subject to continuing employment through the vesting date. The shares are reflected at actual performance achievement level. The performance period was completed as of fiscal 2016 year end.

(3) These market-based stock units were granted on March 28, 2014 and vest 100% on March 28, 2017, subject to continuing employment through the vesting date. The shares are reflected at the target award level, which is the same as the maximum award level. The market condition performance period continues through March 28, 2017. However, all market conditions were met in fiscal 2014.

(4) These stock options were granted on April 7, 2014 and vest one-third each year on each of the first three anniversaries of the date of grant, subject to continuing employment through the applicable vesting date.

(5) These restricted stock units were granted on April 7, 2014 and vest one-third each year on each of the first three anniversaries of the date of grant, subject to continuing employment through the applicable vesting date.

(6) These performance stock units were granted on April 7, 2014 and vest 100% on April 7, 2017, subject to continuing employment through the vesting date. The shares are reflected at actual performance achievement level. The performance period was completed as of fiscal 2016 year end.

(7) These stock options were granted on March 16, 2015 and vest one-third each year on each of the first three anniversaries of the date of grant, subject to continuing employment through the applicable vesting date.

(8) These performance stock units were granted on March 16, 2015 and vest 100% on March 16, 2018, subject to achieving performance criteria and continuing employment through the vesting date. The shares are reflected at the target award level. The performance period continues through fiscal 2017 year end.

(9) These stock options were granted on March 22, 2016 and vest one-third each year on each of the first three anniversaries of the date of grant, subject to continuing employment through the applicable vesting date.

(10) These performance stock units were granted on March 22, 2016 and vest 100% on March 22, 2019, subject to achieving performance criteria and continuing employment through the vesting date. The shares are reflected at the target award level. The performance period continues through fiscal 2018 year end.

(11) These restricted stock units were granted on April 11, 2016 and vest one-third each year on each of the first three anniversaries of the date of grant, subject to continuing employment through the applicable vesting date.

(12) These stock options were granted on April 11, 2016 and vest one-third each year on each of the first three anniversaries of the date of grant, subject to continuing employment through the applicable vesting date.

(13) These market-based stock options were granted on April 11, 2016 and vest 100% on April 11, 2019, subject to continuing employment through the vesting date; provided, however, that the options will only become exercisable if the market condition is achieved. The shares are reflected at the target award level, which is the same as the maximum award level. The market condition requires the company's closing stock price to exceed $27.00 for 20 consecutive trading days and can be achieved any time prior to April 11, 2026, subject to continuing employment. As of December 31, 2016, the market condition had not been achieved.

(14) These restricted stock units were granted on April 11, 2016 and vest 100% on April 11, 2017, subject to continuing employment through the vesting date.

(15) These restricted stock units were granted on April 11, 2016 and vest one-half each year on each of the first two anniversaries of the date of grant, subject to continuing employment through the applicable vesting date.

(16) These performance stock units were granted on April 11, 2016 and vest 100% on April 11, 2019, subject to achieving performance criteria and continuing employment through the vesting date. The shares are reflected at the target award level. The performance period continues through fiscal 2018 year end.

(17) Calculated by multiplying unvested shares by $22.62, the closing price of the company's common stock on the Nasdaq Stock Market on December 30, 2016.

Option Exercises and Stock Vested

The following table summarizes the stock options exercised and restricted stock awards vested for each of the named executive officers during the fiscal year ended December 31, 2016.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)[1]	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)[2]
Shelly R. Ibach	11,800	$156,616	11,350	$223,293
David R. Callen	---	---	4,685	$ 89,811
Andrew P. Carlin	3,200	$ 34,119	2,830	$ 56,932
Suresh Krishna	---	---	---	---
Andrea L. Bloomquist	---	---	2,653	$ 52,844

(1) The value realized on the exercise of stock options for purposes of this table is based on the difference between the fair market value of our common stock on the date of exercise and the exercise price of the stock option.

(2) The value realized on the vesting of stock awards for purposes of this table is based on the fair market value of our common stock on the date of vesting of the award.

Nonqualified Deferred Compensation

The following table summarizes the aggregate earnings and balances for each of the named executive officers under the Select Comfort Executive Investment Plan, the company's non-qualified deferred compensation plan (described in greater detail below), for the 2016 fiscal year ended December 31, 2016.

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year ($)	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year-End[1] ($)
Shelly R. Ibach	$154,591	---	$23,637	---	$387,965
David R. Callen	$ 739	---	$ 826	---	$ 37,529
Andrew P. Carlin	$234,957	---	$51,419	---	$599,201
Suresh Krishna	---	---	---	---	---
Andrea L. Bloomquist	---	---	---	---	---

(1) Among the named executive officers, Ms. Ibach, Mr. Callen and Mr. Carlin had account balances under the plan as of December 31, 2016. Mr. Krishna and Ms. Bloomquist did not elect to participate in the plan in fiscal year 2016.

As determined by the plan administrator each year, certain executive employees (for example, director level and above) may be eligible to participate in the Select Comfort Executive Investment Plan, a non-qualified deferred compensation plan. Under this plan, eligible employees may defer up to 50% of base salary and up to 75% of bonus compensation on a pre-tax basis. These voluntary employee salary and bonus deferrals are credited to the participant's "savings account." (Elective deferrals made by eligible employees prior to January 1, 2009 could have been credited to a "fixed period account.") No employees were eligible to make deferrals of base salary or bonus during the 2009, 2010 and 2011 plan years and the first six months of the 2012 plan year.

In addition to deferrals made by eligible employees, the company may elect to credit eligible employees with discretionary employer credits to a "retirement account." The company has not elected to make any discretionary employer credits under this plan.

A participant's account under the plan is also credited with earnings credits which are based on deemed investment in a variety of funds made available by the plan administrator and which are currently similar to the investment fund options available under the company's 401(k) plan. The participant selects the funds into which the account balance is deemed to be invested and these allocations may be changed by the participant at any time.

Amounts credited to savings and retirement accounts are paid out no later than 90 days (or six months for executive officers) after the participant's "termination date" (which means the date the participant separates from service as defined under Internal Revenue Code Section 409A). Payment of the fixed period account depends on the date (or dates) of distribution elected by the participant at the time he or she made the election to defer salary or bonus to a fixed period account. Distributions to the participant may be made in a lump sum payment or in annual installment payments. Prior to the termination date (or the fixed payment date of a fixed period account), a participant may be allowed to receive a lump sum distribution from his or her account in the event of certain unforeseeable emergencies. The participant's account (if any) upon his or her date of death is paid in a lump sum to the participant's plan beneficiary or beneficiaries.

Employment Arrangements, Potential Payments upon Change in Control

No Employment Agreements. All Select Comfort employees, including all executive officers, are "at will" employees, meaning that the employee or the company may terminate the employment relationship with or without cause and with or without notice, at any time at the option of either the employee or the company. No executive officer of the company has any contractual or other right to employment for any term or period of time. In addition, no executive officer would be entitled to any severance compensation in excess of the benefits provided under the company's Severance Plan described above.

Change in Control Provisions –2004 Stock Incentive Plans

Under our company's 2004 Stock Incentive Plan (the "2004 Plan"), if a "change in control" of our company occurs, then, unless the Compensation Committee decides otherwise either at the time of grant of an incentive award or at any time thereafter, all outstanding stock options will become immediately exercisable in full and will remain exercisable for the remainder of their terms, regardless of whether the participant to whom such options have been granted remains in the employ or service of our company or any subsidiary.

In addition, under the 2004 Plan, if a "change in control" of our company occurs, then, unless the Compensation Committee decides otherwise either at the time of grant of an incentive award or at any time thereafter:

- All outstanding stock appreciation rights will become immediately exercisable in full and will remain exercisable for the remainder of their terms, regardless of whether the participant to whom such stock appreciation rights have been granted remains in the employ or service of our company or any subsidiary;

- All outstanding restricted stock awards will become immediately fully vested and non-forfeitable; and

- All outstanding performance units, stock bonuses and performance stock awards will vest and/or continue to vest in the manner determined by the Compensation Committee and set forth in the agreement evidencing such performance units or stock bonuses.

There are presently no outstanding stock appreciation rights, performance units or stock bonuses.

In the event of a change in control, the Compensation Committee may pay cash for all or a portion of the outstanding options. The amount of cash the participants would receive will equal (a) the fair market value of such shares immediately prior to the change in control minus (b) the exercise price per share and any required tax withholding.

Under the 2004 Plan, a "change in control" will include any of the following:

- The sale, lease, exchange or other transfer of all or substantially all of the assets of our company to a corporation not controlled by our company;

- The approval by our shareholders of a plan or proposal for the liquidation or dissolution of our company;

- Any change in control that is required by the Securities and Exchange Commission to be reported;

- Any person who was not a shareholder of our company on the effective date of the Plan becomes the beneficial owner of 50% or more of the voting power of our company's outstanding common stock; or

- The “continuity” directors (directors as of the effective date of the Plan and their future nominees) ceasing to constitute a majority of the Board of Directors.

The foregoing provisions applicable to changes in control under our 2004 Plan apply equally to all employees holding incentive awards under this plan.

Change in Control Provisions – 2010 Omnibus Incentive Plan

While the events that are considered a change in control under our 2004 Plan and Amended and Restated 2010 Omnibus Incentive Plan (the “2010 Plan”) are identical, our 2010 Plan, which governs incentive awards granted in 2010 and future years, contains a “double-trigger” change in control provision. Under this provision, if the company is the surviving company, or the surviving or acquiring company assumes our outstanding incentive awards or provides for their equivalent substitutes, then vesting of incentive awards is accelerated only upon the termination of the employee’s service, a material reduction in an employee’s base salary, a discontinuation of participation in certain long-term cash or equity benefits provided to comparable employees, a significant change in job responsibilities or the need to relocate, provided these events occur within two years following a change in control.

Potential Payments to Named Executive Officers

The following table summarizes the amount of compensation and benefits payable to each named executive officer in the event of (i) any voluntary termination or resignation or termination for cause, (ii) an involuntary termination without cause, (iii) a change in control, (iv) a qualifying change in control termination, and (v) termination by reason of an executive's death or disability. The amounts shown assume that the applicable triggering event occurred on December 31, 2016 (fiscal year-end).

		Triggering Events				
Name	**Type of Payment**	**Voluntary/ Involuntary Termination For Cause ($)**	**Involuntary Termination without Cause[(1)] ($)**	**Change in Control ($)**	**Qualifying Change in Control Termination[(2)] ($)**	**Death or Disability ($)**
Shelly R. Ibach	Cash Severance[(3)]	---	$4,075,000	---	$4,075,000	---
	Option Award Acceleration[(4)]	---	$ 88,303	---	$ 264,523	$ 264,523
	Stock Award Acceleration[(5)]	---	$2,693,522	---	$4,721,450	$4,721,450
	Benefit Continuation[(6)]	---	$ 14,567	---	$ 14,567	---
	Outplacement	---	$ 15,000	---	$ 15,000	---
	Total	---	$6,886,392	---	$9,090,540	$4,985,973
David R. Callen	Cash Severance[(3)]	---	$ 847,547	---	$ 847,547	---
	Option Award Acceleration[(4)]	---	---	---	$ 54,914	$ 54,914
	Stock Award Acceleration[(5)]	---	---	---	$ 873,064	$ 873,064
	Benefit Continuation[(6)]	---	$ 19,229	---	$ 19,229	---
	Outplacement	---	$ 10,000	---	$ 10,000	---
	Total	---	$ 876,776	---	$1,804,754	$ 927,978
Andrew P. Carlin	Cash Severance[(3)]	---	$ 893,760	---	$ 893,760	---
	Option Award Acceleration[(4)]	---	---	---	$ 57,066	$ 57,066
	Stock Award Acceleration[(5)]	---	---	---	$1,693,853	$1,693,853
	Benefit Continuation[(6)]	---	$ 19,044	---	$ 19,044	---
	Outplacement	---	$ 10,000	---	$ 10,000	---
	Total	---	$ 922,804	---	$2,673,723	$1,750,919
Suresh Krishna	Cash Severance[(3)]	---	$ 819,000	---	$ 819,000	---
	Option Award Acceleration[(4)]	---	---	---	$ 145,184	$ 145,184
	Stock Award Acceleration[(5)]	---	---	---	$1,237,201	$1,237,201
	Benefit Continuation[(6)]	---	$ 16,502	---	$ 16,502	---
	Outplacement	---	$ 10,000	---	$ 10,000	---
	Total	---	$ 845,502	---	$2,227,887	$1,382,385
Andrea L. Bloomquist	Cash Severance[(3)]	---	$ 851,760	---	$ 851,760	---
	Option Award Acceleration[(4)]	---	---	---	$ 57,066	$ 57,066
	Stock Award Acceleration[(5)]	---	---	---	$1,266,788	$1,266,788
	Benefit Continuation[(6)]	---	---	---	---	---
	Outplacement	---	$ 10,000	---	$ 10,000	---
	Total	---	$ 861,760	---	$2,185,614	$1,323,854

(1) If a named executive officer's employment is terminated by reason of involuntary termination without cause or their retirement at or beyond age fifty-five (55) and they have five (5) or more years of service with the company prior to retirement, the named executive officer will become vested in the stock and option awards pro rata based on the number of months elapsed in the restriction period as of the date of retirement.

(2) The amounts payable to the named executive officers upon a change in control may be subject to reduction under Sections 280G and 4999 of the Internal Revenue Code.

(3) For the CEO, the cash severance compensation is equal to (a) two times the sum of (i) annual base salary and (ii) annual target bonus, plus (b) a pro rata target bonus for the year of termination. For each of the other named executive officers, the cash severance compensation is equal to (a) one times the sum of (i) annual base salary and (ii) annual target bonus, plus (b) a pro rata target bonus for the year of termination.

(4) The value of the automatic acceleration of the vesting of unvested stock options held by a named executive officer is based on the difference between: (i) the fair market value of our common stock as of December 30, 2016 ($22.62), and (ii) the per share exercise price of the options held by the executive. The range of exercise prices of unvested stock options held by our named executive officers included in the table as of December 31, 2016 was $17.36 to $33.32.

(5) The value of the automatic acceleration of the vesting of stock awards held by a named executive officer is based on: (i) the number of unvested stock awards held by the executive as of December 31, 2016, multiplied by (ii) the fair market value of our common stock on December 30, 2016 ($22.62).

(6) Represents the cost of "COBRA" medical and dental continuation coverage, less the amount paid by an active full-time employee for the same level of coverage.

Director Compensation

The following table summarizes the total compensation paid or earned by each of the non-employee members of our Board of Directors for the 2016 fiscal year ended December 31, 2016.

Name	Fees Earned or Paid in Cash ($)	Stock Awards(1)(5) ($)	Option Awards(2) ($)	All Other Compensation ($)	Total ($)
Daniel I. Alegre	$ 76,500	$71,807	$24,093	---	$172,400
Stephen L. Gulis, Jr.(3)	$ 89,000	$71,807	$24,093	---	$184,900
Michael J. Harrison(3)	$ 78,500	$71,807	$24,093	---	$174,400
Brenda J. Lauderback(3)	$ 87,000	$71,807	$24,093	---	$182,900
Barbara R. Matas (3) (4)	$ 56,250	$71,807	$24,093	---	$152,150
Kathleen L. Nedorostek	$ 78,500	$71,807	$24,093	---	$174,400
Vicki A. O'Meara	$ 56,250	$71,807	$24,093	---	$152,150
Michael A. Peel(3)	$ 88,500	$71,807	$24,093	---	$184,400
Jean-Michel Valette	$175,000	$71,807	$24,093	---	$270,900

(1) Reflects the aggregate grant date fair value of 3,303 restricted stock awards granted during fiscal year 2016, computed in accordance with FASB ASC Topic 718. See Note 10, *Shareholders' Equity*, to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, for a discussion of the relevant assumptions used in calculating these amounts.

(2) Reflects the aggregate grant date fair value of 2,247 stock option awards granted during fiscal year 2016, computed in accordance with FASB ASC Topic 718. See Note 10, *Shareholders' Equity*, to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, for a discussion of the relevant assumptions used in calculating these amounts. As of December 31, 2016, the aggregate number of stock options outstanding held by those who served as non-employee directors during fiscal 2016 was as follows: Mr. Alegre, 9,482; Mr. Gulis, 47,357; Mr. Harrison, 12,951; Ms. Lauderback, 47,357; Ms. Matas, 2,247; Ms. Nedorostek, 15,357; Ms. O'Meara, 2,247; Mr. Peel 35,220; and Mr. Valette, 20,357.

(3) Under the 2010 Omnibus Incentive Plan, non-employee directors may elect to defer receipt of any shares of the company's common stock under an Incentive Award granted to non-employee directors under the Plan. For fiscal 2016, the following Directors have elected to defer receipt of their 2016 Incentive Award: Mr. Gulis, 3,303 shares; Mr. Harrison, 3,303 shares; Ms. Lauderback, 3,303 shares; Ms. Matas, 2,642 shares; and Mr. Peel, 3,303 shares.

(4) Beginning in June 2016, Ms. Matas elected to receive all director fees in the form of common stock under the company's 2010 Omnibus Incentive Plan, and to defer receipt of such shares. The number of shares paid is determined by dividing the amount of the director's fees to be deferred by the fair market value per share of our common stock on the date the fees otherwise would have been payable in cash. The number of shares to be received by this director in lieu of cash compensation for fiscal 2016 is 1,659 shares and the related grant date fair value was $37,500.

(5) As of December 31, 2016, the aggregate number of shares outstanding under stock awards, including restricted stock, restricted stock units and phantom stock, held by those who served as non-employee directors during fiscal year 2016 was as follows: Mr. Alegre, 3,303 shares; Mr. Gulis, 64,466 shares; Mr. Harrison, 18,221 shares; Ms. Lauderback, 12,640 shares; Ms. Matas, 4,962 shares; Ms. Nedorostek, 15,395 shares; Ms. O'Meara, 3,303 shares; Mr. Peel, 11,188 shares, and Mr. Valette, 3,303 shares.

Annual Retainer. For each of the last two years, all of our non-employee directors have received an annual cash retainer of $75,000. The Chairs of each of the Committees of the Board receive additional compensation of $10,000 per year. No Committee members other than the Chair receive additional compensation for service on any Committee. The non-executive Chairman of the Board receives an additional retainer of $100,000 per year.

Meeting Fees. Non-employee directors are entitled to payment of meeting fees for Board and Committee meetings beyond the normal number of regular or typical meetings for the Board and each Committee in a fiscal year. Pursuant to this approval, non-employee directors (other than the Chairman of the Board) are entitled to (i) Board meeting fees of $1,000 per in-person meeting and $500 per telephonic meeting after a minimum of four Board meetings for the fiscal year, and (ii) Committee meeting fees of $750 per in-person Committee meeting and $500 per telephonic Committee meeting after a minimum of eight Audit Committee meetings and after a minimum of four meetings of each other Committee for the fiscal year.

Equity Compensation. Coincident with the annual meeting of shareholders, non-employee directors are eligible to receive equity compensation in amounts determined by the Management Development and Compensation Committee, of which generally 75 percent would be paid in the form of restricted stock and 25 percent in stock options, based on Black-Scholes valuation, with the grants to vest on the earlier of one year from the date of grant or the date of the next annual meeting at which directors are elected to the Board, so long as the director continues to serve on our Board of Directors. All options granted to directors have an exercise price equal to the fair market value of our common stock on the date of grant and remain exercisable for a period of up to 10 years, subject to earlier termination following retirement from the Board.

Reimbursement of Expenses. All of our directors are reimbursed for travel expenses for attending meetings of our Board or any Board committee and for attending director continuing education programs.

No Director Compensation for Employee Directors. Any director who is also an employee of our company does not receive additional compensation for service as a director.

ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION ("Say-on-Pay")

(Proposal 2)

Background

Consistent with the views expressed by shareholders at our 2011 Annual Meeting, the Board of Directors has determined to hold an advisory vote to approve executive compensation annually. Subject to the outcome of the advisory vote on the frequency of future advisory votes on executive compensation (see proposal 3), the company expects to continue to hold such votes annually.

This advisory resolution, commonly referred to as "say-on-pay", is non-binding on the company and the Board of Directors. However, the Board and the Compensation Committee value the opinions of our shareholders and will carefully consider the outcome of the vote when making future compensation decisions.

As described more fully in the Compensation Discussion and Analysis section of this Proxy Statement, our compensation programs are structured to align the interests of our executive officers with the interests of our shareholders. They are designed to attract, retain, and motivate a talented management team to preserve its competitive advantage in the marketplace and deliver sustainable profitable growth. Shareholders are urged to read the CD&A, which discusses in-depth how our executive compensation programs are aligned with our performance and the creation of shareholder value.

Proposal

The Board of Directors recommends that shareholders vote "For" approval of the following non-binding advisory resolution at the 2017 annual meeting:

> RESOLVED, that the shareholders of Select Comfort Corporation approve, on an advisory basis, the compensation of the company's named executive officers as described in the Compensation Discussion and Analysis, tabular disclosures and other executive compensation narrative provided in this Proxy Statement for the company's 2017 Annual Meeting of Shareholders.

Vote Required

The affirmative vote of the holders of a majority of the shares of common stock present and entitled to vote in person or by proxy on this matter at the Annual Meeting, and at least a majority of the minimum number of shares necessary for a quorum, is necessary for approval of the foregoing resolution. Unless a contrary choice is specified, proxies solicited by the Board of Directors will be voted "**For**" approval of the foregoing resolution.

ADVISORY VOTE TO APPROVE THE FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION

(Proposal 3)

Background

Pursuant to the Dodd-Frank Act, we are required to ask our shareholders to cast an advisory vote at least every six years as to whether future advisory votes on executive compensation, or "say-on-pay" votes, should occur every year, every two years or every three years.

We initially asked shareholders to cast an advisory vote to approve the frequency of say-on-pay votes at our 2011 annual meeting. At that time, approximately 64% of the votes cast by shareholders on the question were in favor of annual say-on-pay votes. Our Board determined to conduct annual say-on-pay votes and we have continued to do so.

The Board of Directors believes that it is in the best interests of our shareholders to continue to conduct annual say-on-pay votes for a number of reasons, including that annual votes (1) will enable shareholders to review and provide input on our executive compensation program every year, and (2) are consistent with our cycle for annual review of the principal elements of our executive compensation program.

Proposal

Shareholders have four choices on the proxy card for their preference for the frequency of future say-on-pay votes: every year, every two years, every three years, or abstain. Shareholders are not voting to approve or disapprove the Board's recommendation. This advisory vote to approve the frequency of future advisory votes on executive compensation will not be binding on the company or the Board of Directors. However, the Board of Directors will take the outcome of the vote into account in determining the frequency of future advisory votes on executive compensation. Notwithstanding the Board's recommendation, or the outcome of the shareholder vote, the Board may in the future decide to conduct advisory votes on a more or less frequent basis and may vary its practice based on evolving trends in corporate governance, discussions with shareholders, changes in compensation programs or other considerations.

Board Recommendation

The Board of Directors recommends that shareholders vote for every year (annually) for the frequency of future advisory votes on executive compensation.

Vote Required

No particular vote is required to approve or disapprove this matter. The choice that receives the most votes of the shares of common stock present and entitled to vote in person or by proxy on this matter at the Annual Meeting will be considered the preference of the company's shareholders. Unless a contrary choice is specified, proxies solicited by the Board of Directors will be voted for every year (annually) for the frequency of future advisory votes on executive compensation.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights[(1)]	Weighted average exercise price of outstanding options, warrants and rights[(3)]	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)[(4)]
Equity compensation plans approved by security holders	2,835,148[(2)]	$18.70	3,914,705
Equity compensation plans not approved by security holders	None	Not applicable	None
Total	2,835,148	$18.70	3,914,705

(1) Includes the Select Comfort Corporation 2004 Stock Incentive Plan and the Select Comfort Corporation 2010 Omnibus Incentive Plan.

(2) This amount includes 511,461 restricted stock units, 779,054 performance-based stock units, 119,783 market-based stock units, and 70,530 phantom shares. Performance-based stock units for which the performance period has not yet been completed are shown at target. The actual number of shares to be issued under performance-based stock unit awards depends on company performance against goals.

(3) The weighted average exercise price does not take into account the unvested restricted stock units, performance-based stock units, market-based stock units or phantom shares, which have no exercise price.

(4) The number of shares of common stock available for issuance under the 2010 Plan is reduced by 1.15 shares for each share issued pursuant to a "full value" award or potentially issuable pursuant to a "full value" award, which are awards other than stock options or SARs that are settled by the issuance of shares of our common stock.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors is responsible for providing independent, objective oversight with respect to our company's accounting and financial reporting functions, internal and external audit functions, systems of internal controls regarding financial matters and legal, ethical and regulatory compliance. The Audit Committee operates under a written charter approved by the Board of Directors. A copy of the charter is available at the investor relations section of the company's website at *http://www.sleepnumber.com/sn/en/investor-relations*.

The Audit Committee is currently composed of five directors, each of whom is independent as defined by the NASDAQ listing standards and SEC Rule 10A-3. Stephen L. Gulis, Jr. (Chair), Michael J. Harrison and Brenda Lauderback served on the Audit Committee throughout 2016 and through the date of this report. Kathleen L. Nedorostek and Jean-Michel Valette served on the Audit Committee from the beginning of 2016 and through the annual meeting of shareholders in May of 2016. Barbara R. Matas and Vicki A. O'Meara joined the Audit Committee upon their appointment to the Board effective as of April 25, 2016 and have continued to serve through the date of this report.

Management is responsible for our company's financial reporting processes and internal control over financial reporting. Deloitte & Touche LLP, our Independent Registered Public Accounting Firm, is responsible for auditing our company's consolidated financial statements for the 2016 fiscal year. This audit is to be conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States). The Audit Committee's responsibility is to monitor and oversee these processes.

In connection with these responsibilities, the Audit Committee met in person or by telephone conference nine times during 2016. These meetings involved representatives of management, internal audit and the independent auditors. At each of its regularly scheduled quarterly meetings, the Audit Committee meets in executive session and also meets in separate executive sessions with representatives of the Independent Registered Public Accounting Firm and with the executive who leads our internal audit function.

Management represented to the Audit Committee that our company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The Audit Committee has reviewed and discussed the consolidated financial statements, together with the results of management's assessment of the company's internal control over financial reporting, with management and the Independent Registered Public Accounting Firm. The Audit Committee discussed with the Independent Registered Public Accounting Firm the matters required to be discussed with the auditors under Statement on Auditing Standards No. 61 "Communication with Audit Committees" (Codification of Statements on Auditing Standards, AU 380), as amended. The Independent Registered Public Accounting Firm provided the Audit Committee with written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board, and the Audit Committee discussed with the Independent Registered Public Accounting Firm that firm's independence.

Based upon the Audit Committee's discussions with management, internal audit and the Independent Registered Public Accounting Firm, and the Audit Committee's review of the representations of management and the Independent Registered Public Accounting Firm, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in our company's Annual Report on Form 10-K for the year ended December 31, 2016, for filing with the Securities and Exchange Commission.

This Audit Committee Report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

The Audit Committee of the Board of Directors

Stephen L. Gulis, Jr., Chair
Michael J. Harrison
Brenda J. Lauderback
Barbara R. Matas
Vicki A. O'Meara

RATIFICATION OF SELECTION
OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(Proposal 4)

Selection of Independent Registered Public Accounting Firm

The Audit Committee of our Board of Directors selected Deloitte & Touche LLP ("Deloitte") as the company's independent registered public accounting firm ("Independent Auditors") for the 2017 fiscal year ending December 30, 2017. Deloitte has served as our Independent Auditors since the 2010 fiscal year.

Although the Board is not required to submit the selection of Independent Auditors to shareholders for ratification, and the Board would not be bound by shareholder ratification or failure to ratify the selection, the Board wishes to submit the selection of Deloitte to serve as our Independent Auditors for the 2017 fiscal year to our shareholders for ratification consistent with best practices in corporate governance.

If shareholders do not ratify the selection of Deloitte as our Independent Auditors, the Audit Committee will reconsider whether to retain Deloitte and may determine to retain that firm or another firm without resubmitting the matter to shareholders. Even if the selection of Deloitte is ratified by shareholders, the Audit Committee may, in its discretion, direct the appointment of a different firm of Independent Auditors at any time during the year if it determines that such a change would be in the best interests of the company and our shareholders.

Representatives of Deloitte will be present at the Annual Meeting, will have an opportunity to make a statement if they so desire and will be available to respond to questions from shareholders.

Audit and Other Fees

The aggregate fees billed for professional services by the Independent Auditors in 2016 and 2015 were:

	2016	2015
Audit fees [(1)]	$554,000	$791,830
Audit-related fees [(2)]	2,000	2,000
Audit and audit-related fees	$556,000	$793,830
Tax fees [(3)]	124,119	182,788
All other fees	---	---
Total	$680,119	$976,618

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(1) The 2015 and 2016 fees include incremental audit fees of $340,000 and $60,000, respectively, related to our new enterprise resource planning system that was implemented during the fourth quarter of 2015.

(2) These fees related to access to an online accounting research tool.

(3) These fees are primarily for tax compliance services based on time and materials. The 2015 and 2016 amounts also include fees of $96,000 and $51,000, respectively, related to our acquisition of BAM Labs, Inc.

Under the Sarbanes-Oxley Act of 2002 and the rules of the Securities and Exchange Commission regarding auditor independence, the engagement of the company's Independent Auditors to provide audit or non-audit services for the company must either be approved by the Audit Committee before the engagement or entered into pursuant to pre-approval policies and procedures established by the Audit Committee. Our Audit Committee has not established any pre-approval policies or procedures and therefore all audit or non-audit services performed for the company by the Independent Auditors must be approved in advance of the engagement by the Audit Committee. Under limited circumstances, certain de minimus non-audit services may be approved by the Audit Committee retroactively. All services provided to the company by the Independent Auditors in 2016 were approved in advance of the engagement by the Audit Committee and no non-audit services were approved retroactively by the Audit Committee pursuant to the exception for certain de minimus services described above.

Board Recommendation

The Board recommends a vote "**For**" ratification of the selection of Deloitte as our Independent Auditors for the 2017 fiscal year ending December 30, 2017. Unless a contrary choice is specified, proxies solicited by the Board will be voted "**For**" the ratification of the selection of Deloitte as Independent Auditors.

Vote Required

Assuming a quorum is present, the affirmative vote of the holders of a majority of the shares of common stock present and entitled to vote in person or by proxy on this matter at the Annual Meeting is necessary for approval of this proposal. Unless a contrary choice is specified, proxies solicited by the Board of Directors will be voted "For" approval of this proposal.

OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and all persons who beneficially own more than 10% of the outstanding shares of our common stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock. Executive officers, directors and greater than 10% beneficial owners are also required to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based upon a review of the copies of such reports furnished to us during the 2016 fiscal year ended December 31, 2016 and written representations by such persons, all reports were filed on a timely basis.

Shareholder Proposals for 2018 Annual Meeting

Any shareholder proposal requested to be included in the proxy materials for the 2018 Annual Meeting of Shareholders must (i) be received by our Senior Vice President, General Counsel and Secretary on or before December 4, 2017 and (ii) satisfy all of the requirements of, and not otherwise be permitted to be excluded under, Rule 14a-8 promulgated by the SEC and our Bylaws.

Our Bylaws require advance written notice to our company of shareholder-proposed business or of a shareholder's intention to make a nomination for director at an annual meeting of shareholders. They also limit the business which may be conducted at any special meeting of shareholders to business brought by the Board.

Specifically, the Bylaws provide that business may be brought before an annual meeting by a shareholder only if the shareholder provides written notice to the Secretary of our company not less than 120 days prior to the first anniversary of the date that we first released or mailed our proxy materials to shareholders in connection with the preceding year's annual meeting. Under these provisions, notice of a shareholder proposal to be presented at the 2018 Annual Meeting of Shareholders (but that is not requested to be included in the proxy materials) must be provided to the Secretary of our company on or before December 5, 2017. In the event, however, that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary of the preceding year's annual meeting date, notice by the shareholder to be timely must be so delivered not later than the close of business on the later of the 120th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made.

A shareholder's notice must set forth:

- A description of the proposed business and the reasons for it,
- The name and address of the shareholder making the proposal,
- The class and number of shares of common stock owned by the shareholder, and

- A description of any material interest of the shareholder in the proposed business.

Our Bylaws also provide that a shareholder may nominate a director at an annual meeting only after providing advance written notice to the Secretary of our company within the time limits described above. The shareholder's notice must set forth all information about each nominee that would be required under SEC rules in a proxy statement soliciting proxies for the election of such nominee, as well as the nominee's business and residence address. The notice must also set forth the name and record address of the shareholder making the nomination and the class and number of shares of common stock owned by that shareholder. The required procedures for a shareholder to nominate a director are described in more detail above under the heading "Corporate Governance – Director Nominations Process."

Other Business

Management of our company does not intend to present other items of business and knows of no items of business that are likely to be brought before the Annual Meeting except those described in this Proxy Statement. However, if any other matters should properly come before the Annual Meeting, the persons named in the enclosed proxy will have discretionary authority to vote such proxy in accordance with the best judgment on such matters.

Copies of 2016 Annual Report

We will furnish to our shareholders without charge a copy of our Annual Report on Form 10-K (without exhibits) for the 2016 fiscal year ended December 31, 2016. Any request for an Annual Report should be sent to:

Select Comfort Corporation
Investor Relations Department
9800 59th Avenue North
Plymouth, Minnesota 55442

Householding Information

"Householding" is a program, approved by the SEC, which allows companies and intermediaries (e.g. banks and brokers or other nominees) to satisfy the delivery requirements for proxy statements and annual reports by delivering only one package of shareholder proxy material to any household at which two or more shareholders reside. If you and other residents at your mailing address own shares of our common stock in a "street name," your broker or bank may have notified you that your household will receive only one copy of our proxy materials. Once you have received notice from your broker that they will be "householding" materials to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. Any shareholder who is receiving multiple copies of these documents and would like to receive only one copy per household should contact the shareholder's bank, broker or other nominee record holder. If you hold shares of our common stock in your own name as a holder of record, "householding" will not apply to your shares.

We will promptly deliver an additional copy of any of these documents to you if you call us at (763) 551-7498 or write us at the following address:

Select Comfort Corporation
Investor Relations Department
9800 59th Avenue North
Plymouth, Minnesota 55442

Your vote is important. Whether or not you plan to attend the Annual Meeting, please vote your shares of common stock "For" the Board's nominees and "For" each of the other proposals before you at the Annual Meeting promptly by mail, telephone, or Internet as instructed on your proxy card.

By Order of the Board of Directors

Mark A. Kimball
Senior Vice President,
Chief Legal and Risk Officer and Secretary

April 4, 2017
Plymouth, Minnesota

sleep number®

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

FORM 10-K

(Mark one)

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

For the Fiscal Year Ended December 31, 2016

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

For the transition period from _________ to _________.

Commission File No. 0-25121

SELECT COMFORT 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.)
9800 59th Avenue North **Minneapolis, Minnesota**	**55442**
(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	Name of each exchange on which registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. YES ☒ NO ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer	☒		Accelerated filer ☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of the common stock held by non-affiliates of the Registrant as of July 2, 2016, was $747,344,000 (based on the last reported sale price of the Registrant’s common stock on that date as reported by NASDAQ).

As of January 28, 2017, there were 42,950,000 shares of the Registrant’s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be furnished to shareholders in connection with its 2017 Annual Meeting of Shareholders are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

As used in this Form 10-K, the terms "we," "us," "our," the "Company," and "Select Comfort" mean Select Comfort Corporation and its subsidiaries and the term "common stock" means our common stock, par value $0.01 per share.

As used in this Form 10-K, the term "bedding" includes mattresses, box springs and foundations.

Sleep Number®, Select Comfort®, SleepIQ®, the Double Arrow logo, AirFit®, Bam LABS®, the "B" logo, Comfortaire®,ComfortFit®, Comfort.Individualized.®, the DualTemp logo, the DualAir Technology Inside logo, FlexTop®, IndividualFit®, Individualized Sleep Experiences®, Know Better Sleep®, Pillow[ology]®, PillowFit®, Probably the Best Bed in the World®, Sleep Number Inner Circle®, Tech-e®, Smart Bed Technology®, The Only Bed That Knows You®, We Make BedsSmart®, What's Your Sleep Number?®, SleepIQ Kids™, SleepIQ LABS™, Sleep For The Future℠, Smart Bed For Smart Kids™, It™, The It Bed™, The Only Bed That Grows With Them™, Tonight Bedtime. Tomorrow The World™, ActiveComfort™, Auto Snore™, CoolFit™, DualAir™, DualTemp™, Firmness Control™, FlexFit™, In Balance™, PartnerSnore™, Rapid Sleep Onset™, Responsive Air™, Sleep Number 360™, The Bed Reborn™, the SleepIQ LABS logo, The Bed That Moves You™, our bed model names, and our other marks and stylized logos are trademarks and/or service marks of Select Comfort. This Form 10-K may also contain trademarks, trade names and service marks that are owned by other persons or entities.

Our fiscal year ends on the Saturday closest to December 31, and, unless the context otherwise requires, all references to years in this Form 10-K refer to our fiscal years. Our fiscal year is based on a 52- or 53-week year. All years presented in this Form 10-K are 52 weeks, except for the 2014 fiscal year ended January 3, 2015, which is a 53-week year.

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PART I

This Annual Report on Form 10-K contains or incorporates by reference certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained in or incorporated by reference into this Annual Report on Form 10-K that are not statements of historical fact may be deemed to be forward-looking statements, including but not limited to projections of revenues, results of operations, financial condition or other financial items; any statements of plans, strategies and objectives of management for future operations; any statements regarding proposed new products, services or developments; any statements regarding future economic conditions, prospects or performance; statements of belief and any statement or assumptions underlying any of the foregoing. In addition, we or others on our behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences and/or Webcasts open to the public, in press releases or reports, on our Internet Website or otherwise. We try to identify forward-looking statements in this report and elsewhere by using words such as "may," "will," "should," "could," "expect," "anticipate," "believe," "estimate," "plan," "project," "predict," "intend," "potential," "continue" or the negative of these or similar terms.

Our forward-looking statements speak only as of the date made and by their nature involve substantial risks and uncertainties. Our actual results may differ materially depending on a variety of factors, including the items discussed in greater detail below under the caption "Risk Factors." These risks and uncertainties are not exclusive and further information concerning the Company and our business, including factors that potentially could materially affect our financial results or condition, may emerge from time to time, including factors that we may consider immaterial or do not anticipate at this time.

We wish to caution readers not to place undue reliance on any forward-looking statement and to recognize that forward-looking statements are predictions of future results, which may not occur as anticipated. We assume no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. We advise you, however, to review and consider any further disclosures we make on related subjects in our quarterly reports on Form 10-Q and current reports on Form 8-K that we file with or furnish to the Securities and Exchange Commission.

ITEM 1. BUSINESS

Overview

Select Comfort Corporation, based in Minneapolis, Minnesota, was founded in 1987. In 1998, Select Comfort became a publicly traded company. We are listed on The NASDAQ Stock Market LLC (NASDAQ Global Select Market) under the symbol "SCSS." When used herein, the terms "Select Comfort," "Company," "we," "us" and "our" refer to Select Comfort Corporation, including consolidated subsidiaries.

Our mission is to improve lives by individualizing sleep experiences. Our vision is to become one of the world's most beloved brands by delivering an unparalleled sleep experience. We plan to achieve this by offering benefit-driven, innovative sleep solutions to our customers through an unmatched retail experience and a carefree ownership experience.

We offer consumers high-quality, individualized sleep solutions and services, which include a complete line of Sleep Number beds, bases and bedding accessories. Our business has three significant competitive advantages: proprietary sleep innovations, ongoing customer relationships and exclusive retail distribution.

We have a vertically integrated business model and are the exclusive designer, manufacturer, marketer, retailer and servicer of a complete line of Sleep Number beds. We are the pioneer in biometric sleep tracking and adjustability. Only the Sleep Number bed offers SleepIQ technology - proprietary sensor technology that works directly with the bed's DualAir system to track each individual's sleep. SleepIQ technology communicates how you slept and what adjustments you can make to optimize your sleep and improve your daily life. Select Comfort also offers FlextFit adjustable bases, and Sleep Number pillows, sheets and other bedding products. As a specialty mattress retailer with stores across the nation, we offer consumers a unique, value-added retail experience at one of the more than 540 Sleep Number stores across the country, online at SleepNumber.com or via phone at (800) 753-3768.

We are committed to delivering superior shareholder value through three primary drivers of earnings per share growth: increasing demand, leveraging our business model and deploying our capital efficiently. We are the sleep innovation leader and drive growth through effective brand marketing and a differentiated retail experience.

In fiscal 2016 we generated net sales of $1.3 billion with $77 million of operating income. In 2012, 2013, 2014 and 2015, we generated operating income of $120 million, $91 million, $102 million and $75 million, respectively. We have transformed the business with $427 million of capital investments over five years through 2016. This effort positions us for accelerated profits and cash generation long-term.

In September 2015, we completed the acquisition of BAM Labs, Inc. (now operating as SleepIQ LABS), the leading provider of biometric sensor and sleep monitoring for data-driven health and wellness. The addition of SleepIQ LABS strengthens Sleep Number's leadership in sleep innovation, adjustability and individualization. The acquisition broadens and deepens electrical, biomedical, software and backend capabilities - API (application program interface) and bio-signal analysis. Our ownership and control of biometric data advances smart, connected products that empower our customers to experience quality sleep.

In the fourth quarter of 2015, we replaced our nearly 20-year-old legacy computer systems with a new vertically integrated Enterprise Resource Planning (ERP) system. We completed our ERP implementation by the end of the first quarter of 2016. Implementation issues negatively affected fourth-quarter 2015 net sales and profits, and to a lesser degree, first-quarter and second-quarter 2016 net sales and profits. The new operating platform enables operational efficiencies, improved customer convenience and supports the growth of our business.

Proprietary Sleep Innovations

<u>Sleep Number® Bed</u>

Unlike the "one-size-fits-all" solution offered by other mattress brands, the Sleep Number bed offers individualized comfort that is adjustable on each side of the bed. Our proprietary DualAir technology, which features two independent air chambers, allows couples to adjust firmness to their own individual preference at the touch of a button. Sleepers can each enjoy their ideal firmness, support and pressure-relieving comfort - their Sleep Number setting - for deep, restful sleep.

The benefits of our proprietary Sleep Number bed have been validated through clinical sleep research, which has shown that participants who slept on a Sleep Number bed generally fell asleep faster, experienced more deep sleep with fewer disturbances and experienced greater relief from back pain than those sleeping on a traditional innerspring mattress.

We offer Sleep Number beds in good, better and best price ranges within the premium mattress category, and in a broad range of sizes, including twin, full, queen, eastern king and California king.

- The Classic Series offers Sleep Number adjustability starting at $799 for a queen mattress. The series includes the Sleep Number c2 and c4 beds.
- The Performance Series includes our most popular mattresses with a perfect balance of softness and pressure-relieving support. The series includes the Sleep Number p5 and p6 beds.
- The Memory Foam Series is breathable and contouring. The series includes the Sleep Number m7 bed.
- The Innovation Series is the ultimate in individualized comfort and temperature-balancing innovation. The series includes the Sleep Number i8 and i10 beds.

In November 2016, J.D. Power announced that Sleep Number ranked highest in customer satisfaction with mattresses for the second consecutive year. The reports measured customer satisfaction with mattress purchases based on seven factors: comfort, price, support, durability, warranty, features and customer service. In 2016 Sleep Number achieved an overall satisfaction index score of 887, which is 32 points above the industry average of 855. In addition, Sleep Number achieved the highest score in the warranty and features study factors.

<u>SleepIQ® Technology</u>

SleepIQ technology is a touchless, biometric sensor technology that tracks sleep during the night. Launched by Select Comfort in 2014, SleepIQ technology tracks the user's sleep by gathering hundreds of readings per second continuously (heart rate, motion and breathing). Based on that data, a proprietary algorithm delivers a personal SleepIQ score, from 1 to 100, to consumers each morning. The Sleep Number bed is the only bed that lets you track and optimize your sleep with SleepIQ technology. SleepIQ also connects with leading health, fitness and sleep environment apps - including FitBit®, Nest Learning Thermostat™, MapMyRun™ and Withings Health Mate™ - to show a holistic view of how lifestyle choices may affect sleep. It empowers the sleeper to achieve their best possible sleep each night. SleepIQ technology is included on our Memory Foam and Innovation series, and available for purchase on all other Sleep Number beds. In addition, SleepIQ can be added to Sleep Number beds purchased after 2008.

SleepIQ Kids™ Bed

In 2015, we introduced the SleepIQ Kids bed, which extends Sleep Number's core DualAir adjustability and SleepIQ technology to the children's mattress market. It is the only bed that adjusts with children as they grow. Through a combination of sleep knowledge powered by SleepIQ technology and adjustability powered by Sleep Number DualAir technology, the SleepIQ Kids bed empowers parents or children to adjust the bed for individualized comfort.

The it™ bed

In September 2016 our latest innovation, the "it bed," became available for sale. The "it bed" is compressed into a sleek box and delivered directly to the customer's doorsteps. Designed for today's connected lifestyles, the "it bed" is adjustable on each side and features SleepIQ technology. The "it bed" received four technology and innovation awards at CES in 2016.

Select Comfort developed the new "it bed" brand for first-time bed buyers and tech-savvy individuals who recognize that quality sleep is essential to their life. It effortlessly quantifies your sleep, connects to select applications and has predictive modeling that makes suggestions to improve your sleep. The "it bed" is exclusive to Select Comfort and is available online at itbed.com and in select Sleep Number stores priced at $1,099 for a queen mattress. The "it bed" features the latest release of SleepIQ technology, which uses adaptive algorithms and predictive modeling to recommend adjustments to daily habits and sleep environment. It also features ActiveComfort technology - the "it bed" has dual, foam-filled air chambers that respond to individuals' constantly changing needs and adjusts to an ideal level of comfort, firmness and support.

The Sleep Number 360™ smart bed product line

In January 2017 at CES, Select Comfort introduced the Sleep Number 360 smart bed product line, one of the most significant innovations in our 30-year history. The Sleep Number 360 smart bed won 13 awards at CES, including being named the Best of Innovation Honoree in the Home Appliances category. Powered by SleepIQ technology, the Sleep Number 360 smart beds will intuitively sense and automatically adjust comfort to keep both partners sleeping soundly all night. The SleepIQ technology platform integrates hardware, software and design to deliver effortless adjustability, sleep tracking and connectivity.

The new Sleep Number 360 smart mattresses and adjustable bases will include these new features:

- Self-adjusting comfort throughout the night. As sleep positions change during the night, Responsive Air technology will adjust the bed's comfort in real time via the two air chambers inside the mattress.
- Foot-warming feature to fall asleep faster. It's clinically proven that people fall asleep faster when their feet are warmed. SleepIQ technology knows the sleepers' bedtime routines and warms the foot of the bed automatically before bedtime with Rapid Sleep Onset technology.
- Auto Snore detection and adjustment. Responding to SleepIQ biometrics, the 360 Smart Bed will automatically adjust to each sleeper's ideal position.
- Smart alarm feature will awaken sleepers at the optimal moment. SleepIQ technology knows each sleeper's desired wake-up window and an alarm will sound when they are in their lightest stage of sleep during this window.

The Sleep Number 360 smart bed line will replace the current Sleep Number line. The phased implementation is planned to begin in the second quarter of 2017 and will be exclusively available in all Sleep Number stores and online.

FlexFit™ Adjustable Base Technology

We offer a full line of exclusive FlexFit adjustable bases that enable customers to raise the head or foot of the bed, and to experience the comfort of massage. Our PartnerSnore technology lets a user gently raise their partner's head to relieve common snoring.

In conjunction with the 360 smart beds, we will introduce a new line of FlexFit adjustable bases in 2017. This new series will replace our existing FlexFit models and will integrate with SleepIQ technology to deliver the new features and functionality.

Sleep Number® Bedding Collection

Our exclusive Sleep Number bedding collection comprises a full line of sleep products that are designed to solve sleep issues. Select Comfort has a wide assortment of pillows designed to fit each individual's size, shape and sleeping position for more comfortable sleep. Our innovative bedding features make it easier to make your bed: our SmartFit design keeps sheets securely in place and Logic Label takes the guesswork out of making your bed. We also offer a wide assortment of temperature-balancing products.

In 2013, we introduced the DualTemp layer, a new sleep innovation that addresses one of the most significant sleep issues experienced by customers: sleeping too hot or sleeping too cold. The DualTemp layer features active air technology that allows each person to select his or her ideal temperature at the simple touch of a button. The DualTemp layer can be used with any mattress brand or adjustable base.

Exclusive Distribution

Unlike traditional mattress manufacturers, which primarily sell through third-party retailers, nearly 98% of our net sales are direct to consumers through our Sleep Number stores, online at SleepNumber.com or via phone.

Since 2012, we rebuilt our store portfolio and expanded our national footprint. This strategy has included repositioning a large percentage of our mall stores to stronger off-mall locations, improving the size and positioning within malls and adding stores in both existing and new trade areas. Going forward, we anticipate a total store count of 600 to 650 stores by 2019. We are well positioned with a retail store portfolio that is healthy and productive. As of year-end 2016, approximately 80% of our stores are less than five years old.

We target high-quality, convenient, visible store locations based on several factors, including each market's overall sales potential, store geographic location, demographics and proximity to other specialty retail stores. As the exclusive distributor of Sleep Number products, we target one store per 350,000 - 500,000 people. This places our stores within an average radius of 10 miles, or 20-minute drive times, for most of our target customers.

Our award-winning store design and improved real estate locations support our value-added retail experience, which results in high store productivity and profitability. Our sales-per-square-foot productivity ranks in the top 10 of U.S. specialty retail brands, at nearly $1,000 per foot and we average approximately $650,000 in annual net sales per full-time retail employee. Since 2011, we have increased our average store size by more than 66% to 2,538 square feet.

As of December 31, 2016, we had 540 retail stores in 49 U.S. states, 53% of which were in non-mall locations. We expect to grow our retail store portfolio by 3% to 4% during 2017.

In addition, we have a robust online experience that helps customers easily engage in relevant content, research our products and solutions, transact online and find post-sales support. Our online experience expands our digital brand and connections with consumers, driving deeper awareness, consideration and engagement.

We have adopted an agile development approach to our online initiatives. This means we deploy rapid experimentation and iterations of our digital experiences. Results include faster time-to-market of online improvements to drive store traffic and online conversion. All Sleep Number products are available exclusively at SleepNumber.com or Sleep Number stores.

Our retail stores accounted for 91% of our net sales in 2016. Average annual net sales per comparable store were $2.4 million in 2016, $2.4 million in 2015 and $2.3 million in 2014. In 2016, 98% of our stores open for a full year generated net sales over $1.0 million and 61% of our stores open for a full year generated net sales over $2.0 million. We now have more than 20% of our store base delivering greater than $3 million in annual net sales. Our online and phone sales accounted for 7% of our net sales in 2016.

Marketing

We use a variety of marketing and advertising vehicles to drive customer traffic to our brand, to educate and to acquire new customers. Our marketing efforts target a broad customer demographic: 30-54 years old with greater than $75,000 household income for our core line of products. Our customers care about their own and their family's health and well-being, and know that quality sleep is a key factor.

Marketing drives growth in our business by building consumer awareness and consideration of our sleep innovations, and increasing traffic to our website and stores, while building our brand image. Our advertising communications target our existing customers for repeat and referral purchases and potential new customers through a mix of national and local marketing. Television is our most efficient media, followed by digital. We continue to build our in-house digital capabilities and data-driven tools to make deeper connections with our customers, increase demand and improve media efficiency. In 2016, media expense represented 14.5% of net sales.

Operations

Manufacturing and Distribution

We have two manufacturing plants located in Irmo, South Carolina and Salt Lake City, Utah, which distribute Sleep Number products. The manufacturing operations in South Carolina and Utah consist of quilting and sewing of the fabric covers for our beds, and final assembly and packaging of mattresses and bases. In addition, our electrical Firmness Control systems are assembled in our Utah plant.

We obtain all of the raw materials and components used to produce our beds from outside sources. A number of components, including our proprietary air chambers, our proprietary blow-molded foundations, our adjustable foundations, various components for our Firmness Control systems, as well as fabrics and zippers, are sourced from suppliers who currently serve as our sole or primary source of supply for these components. We believe we can obtain these raw materials and components from other sources of supply, although we could experience some short-term disruption in our ability to fulfill orders in the event of an unexpected loss of supply from one of the primary suppliers. We utilize dual sourcing on targeted components when effective.

We have taken, and continue to take, various measures to mitigate the potential impact of an unexpected disruption in supply from any sole-source suppliers, including increasing safety stocks and identifying potential secondary sources of supply. All of the suppliers that produce unique or proprietary products for us have in place either contingency or disaster recovery plans or redundant production capabilities in other locations in order to safeguard against any unforeseen disasters. We review these plans and sites on a regular basis to ensure the supplier's ability to maintain an uninterrupted supply of materials and components.

Historically, we manufactured beds primarily on a just-in-time basis to fulfill orders rather than stocking inventory, which enabled us to maintain lower levels of finished goods inventory and operate with limited regional warehousing. Over the last two years, we have migrated our fulfillment process to a hybrid "make-to-stock" model, wherein our best selling products are forward stocked in distribution centers closer to customers. Together with our new ERP system, this hybrid model will enable us to improve our customer experience with shorter delivery times. Products are generally received by the customer within five to 14 days from the date of order.

Home Delivery Service

We offer Comfort Service[SM] home delivery and setup, which includes assembly and mattress removal. In selected markets, we provide home delivery, assembly and mattress removal services through third-party providers. Over 80% of beds sold are delivered by our full-service home delivery team or by our third-party service providers.

Customer Service

We have an in-house customer service department staffed by teams of specialists that provide service and support via phone, email, “live chat” and social media. Direct access to our customers is a unique advantage that also provides insights and identifies emerging trends as we strive to continuously improve our product and service quality and advance our product innovation.

Research and Development

As a consumer-driven innovation company, Select Comfort conducts extensive research to understand consumer needs. This research informs the design and delivery of our sleep innovations and our customer experience. We have a robust product development organization that fuels our innovations, and in 2015 we acquired BAM Labs, Inc. (now operating as SleepIQ LABS), a leading provider of biometric sensor and sleep monitoring for data-driven health and wellness. This is significant as consumers are rapidly adopting new digital tools and using their personal data to improve health and wellness. Technology that improves the quality of sleep and overall wellness will continue to be a top priority for Select Comfort. Our research and development expenses were $28.0 million in 2016, $16.0 million in 2015 and $8.2 million in 2014.

Management Information Systems

We use information technology systems to operate, analyze and manage our business, to reduce operating costs and to enhance our customers' experience. Our major systems include an in-store order entry system, a retail portal system, a payment processing system, in-bound and out-bound telecommunications systems for direct marketing, delivery scheduling and customer service, e-commerce systems, a data warehouse system and an enterprise resource planning system. These systems are primarily comprised of packaged applications licensed from various software vendors plus a limited number of internally developed programs. In October 2015, we completed a multi-year project to upgrade our core information technology systems. Please refer to the information set forth in "Part I, Item 1A. Risk Factors" for a discussion of certain risks that may be encountered in connection with the our management information systems.

Intellectual Property

We hold various U.S. and foreign patents and patent applications regarding certain elements of the design and function of our products, including air control systems, remote control systems, air chamber features, mattress construction, foundation systems, sensing systems, as well as other technology. We have numerous U.S. patents, expiring at various dates between July 2017 and February 2035, and numerous U.S. patent applications pending. We also have numerous foreign patents and patent applications pending. Notwithstanding these patents and patent applications, we cannot ensure that these patent rights will provide substantial protection or that others will not be able to develop products that are similar to or competitive with our products.

We have a number of trademarks and service marks registered with the U.S. Patent and Trademark Office, including Sleep Number®, Select Comfort®, SleepIQ®, the Double Arrow logo, AirFit®, Bam LABS®, the "B" logo, Comfortaire®, ComfortFit®, Comfort.Individualized.®, the DualTemp logo, the DualAir Technology Inside logo, FlexTop®, IndividualFit®, Individualized Sleep Experiences®, Know Better Sleep®, Pillow[ology]®, PillowFit®, Probably the Best Bed in the World®, Sleep Number Inner Circle®, Tech-e®, Smart Bed Technology®, The Only Bed That Knows You®, We Make Beds Smart®, and What's Your Sleep Number?®. We have several trademarks that are the subject of pending applications, including SleepIQ Kids™, SleepIQ LABS™, Sleep for the Future℠, Smart Bed For Smart Kids™, It™, The It Bed™, The Only Bed That Grows With Them™, and Tonight Bedtime. Tomorrow The World™. Each registered mark is renewable indefinitely as long as the mark remains in use and/or is not deemed to be invalid or canceled. We also have a number of common law trademarks, including ActiveComfort™, Auto Snore™, CoolFit™, DualAir™, DualTemp™, Firmness Control™, FlexFit™, In Balance™, PartnerSnore™, Rapid Sleep Onset™, Responsive Air™, Say Hello to It™, Sleep Number 360™, the SleepIQ LABS logo, The Bed Reborn™, The Bed That Moves You™ and our bed model names. Several of our trademarks have been registered, or are the subject of pending applications for registration, in various foreign countries. We also have other intellectual property rights related to our products, processes and technologies, including trade secrets, trade dress and copyrights. We protect and enforce our intellectual property rights, including through litigation as necessary.

Industry and Competition

The U.S. bedding industry is a mature and generally stable industry. According to the International Sleep Products Association (ISPA), the industry has grown by approximately 5% over last 20 years and at an estimated 6%, on average, over the past six years. We believe that industry unit growth has been primarily driven by population growth, an increase in the number of homes (including secondary residences) and the increased size of homes. We believe growth in average wholesale prices resulted from a shift to both larger and higher-quality beds, which are typically more expensive. According to ISPA, industry wholesale shipments of mattresses and foundations (excluding adjustable bases) were estimated to be $8.2 billion in 2016 compared to $8.0 billion in 2015. We estimate that traditional innerspring mattresses represent approximately 73% of total U.S. bedding sales (based on 2015 sales). *Furniture/Today,* a furniture industry trade publication, has ranked Select Comfort as the 5th largest mattress manufacturer and 3rd largest U.S. bedding retailer for 2015, with a 5.0% market share of industry revenue.

Manufacturers in the bedding industry compete on price, quality, brand name recognition, product availability and product performance, including the perceived levels of comfort and support provided by a mattress. There is a high degree of concentration among manufacturers, who produce innerspring, memory foam and hybrid beds, under nationally recognized brand names, including Tempur Sealy, Stearns & Foster, Serta and Simmons. Recently, numerous (greater than 50) direct-to-consumer companies have entered the market, offering "bed-in-a-box" products to consumers primarily through the Internet. These companies market directly to consumers, competing primarily on convenience of online shopping and speed of delivery. Their products are generally foam-based and undifferentiated in terms of sleep benefits. Select Comfort is differentiated from competitors through its consumer innovation strategy and direct-to-consumer model with 540 Sleep Number stores nationwide. We compete with our proprietary innovations, including our signature Sleep Number adjustability and SleepIQ Technology, that provide meaningful sleep benefits for our customers.

The retail bedding industry is fragmented and also highly competitive. Our Company-Controlled distribution channel is exclusive, and we compete against regional and local specialty bedding retailers, home furnishing stores, mass merchants, national discount stores and online marketers. Our exclusive distribution is highly differentiated, and offers a retail-leading customer experience.

Governmental Regulation and Compliance

As a vertically integrated manufacturer and retailer, we are subject to extensive federal, state and local laws and regulations affecting all aspects of our business.

As a manufacturer, we are committed to product quality and safety, including adherence to all applicable laws and regulations affecting our products. Compliance with federal fire retardant standards developed by the U.S. Consumer Product Safety Commission, including rigorous and costly testing, has increased the cost and complexity of manufacturing our products and may adversely impact the speed and cost of product development efforts. Further, our manufacturing and other business operations and facilities are or may become subject to additional federal, state or local laws or regulations relating to supply chain transparency, conflict minerals sourcing and disclosure, end-of-life disposal and recycling requirements and other laws or regulations relating to environmental protection and health and safety requirements. We are not aware of any national or local environmental laws or regulations that may require material capital expenditures or which may materially affect our competitive position or our operational results, financial position or cash flows.

As a retailer, we are subject to additional laws and regulations that apply to retailers generally and govern the marketing and sale of our products and the operation of both our retail stores and our e-commerce activities. Many of the statutory and regulatory requirements which impact our retail and e-commerce operations are consumer-focused and pertain to activities such as the advertising and selling of credit-based promotional offers, truth-in-advertising, privacy, “do not call/mail” requirements, warranty disclosure, delivery timing requirements, accessibility and similar requirements.

All of our operations are or may become subject to federal, state and local labor laws including, but not limited to, those relating to occupational health and safety, employee privacy, wage and hour, overtime pay, harassment and discrimination, equal opportunity and employee leaves and benefits. We are also subject to existing and emerging federal and state laws relating to data security.

It is our policy and practice to comply with all legal and regulatory requirements and our procedures and internal controls are designed to promote such compliance.

Customers

No single customer accounts for 10% or more of our net sales.

Seasonality

Our business is modestly impacted by seasonal influences inherent in the U.S. bedding industry and general retail shopping patterns. The U.S. bedding industry generally experiences lower sales in the second quarter of the calendar year and increased sales during selected holiday or promotional periods.

Working Capital

We are able to operate with minimal working capital requirements because we sell directly to customers, utilize a primarily hybrid "make-to-stock" production process and operate retail stores that serve mainly as showrooms. We have historically generated sufficient cash flows to self-fund operations through an accelerated cash-conversion cycle. As of December 31, 2016, we had $150 million net aggregate availability under our $150 million credit facility. Our credit facility contains an accordion feature that allows us to increase the amount of the line up to $200 million in total availability, subject to lender approval.

Qualified customers are offered revolving credit to finance purchases through a private-label consumer credit facility provided by Synchrony Bank. Approximately 45% of our net sales in 2016 were financed by Synchrony Bank. Our current agreement with Synchrony Bank expires December 31, 2020, subject to earlier termination upon certain events and subject to automatic extensions. We pay Synchrony Bank a fee for extended credit promotional financing offers. Under the terms of our agreement, Synchrony Bank sets the minimum acceptable credit ratings, the interest rates, fees and all other terms and conditions of the customer accounts, including collection policies and procedures. As the receivables are owned by Synchrony Bank, at no time are the receivables purchased or acquired from us. We are not liable to Synchrony Bank for our customers' credit defaults. In connection with all purchases financed under these arrangements, Synchrony Bank pays us an amount equal to the total amount of such purchases, net of promotional related discounts, upon delivery to the customer. Customers that do not qualify for credit under our agreement with Synchrony Bank may apply for credit under a secondary program that we offer through another provider.

Employees

At December 31, 2016, we employed 3,768 persons, including 2,033 retail sales and support employees, 293 customer service employees, 969 manufacturing and logistics employees, and 473 management and administrative employees. Approximately 110 of our employees were employed on a part-time or temporary basis at December 31, 2016. Except for managerial employees and professional support staff, all of our employees are paid on an hourly basis (plus commissions for sales professionals). Additionally, we provide various broad-participation incentive compensation programs tied to various performance objectives. None of our employees are represented by a labor union or covered by a collective bargaining agreement. In recent periods, we have focused on improving our employee engagement levels, which we believe are important to driving both organizational productivity and customer satisfaction.

Executive Officers of the Registrant

SHELLY R. IBACH, 57

President and Chief Executive Officer (Joined the Company in April 2007 and was promoted to President and CEO in June 2012)

Shelly R. Ibach, Sleep Number® setting 40, serves as the President and Chief Executive Officer (CEO) for Select Comfort (NASDAQ: SCSS). From June 2011 to June 2012, Ms. Ibach served as the company's Executive Vice President and Chief Operating Officer and from October 2008 to June 2011, she served as Executive Vice President, Sales & Merchandising. Ms. Ibach joined the company in April 2007 as Senior Vice President of U.S. sales for company-owned channels. Before joining the company, Ms. Ibach was Senior Vice President and General Merchandise Manager for Macy's home division. From 1982 to 2005, Ms. Ibach held various leadership and executive positions within Department Stores at Target Corporation.

MELISSA BARRA, 45

Senior Vice President, Chief Strategy and Customer Relationship Officer (Joined the Company in 2013 and was promoted to current role in January 2015)

Melissa Barra, Sleep Number® setting 30, serves as the Senior Vice President, Chief Strategy and Customer Relationship Officer. Ms. Barra was Vice President, Consumer Insights and Strategy from February 2013 to January 2015. Prior to joining Select Comfort in February 2013, Ms. Barra was Vice President, Process Reengineering Officer for Best Buy Co., Inc. from 2011 to 2012. In a dual role, she also served as Vice President, Finance, New Business Customer Solutions Group from 2010 to 2012. From 2005 to 2010, she held leadership positions in Strategic Alliances and Corporate Development for Best Buy. Prior to Best Buy, Ms. Barra held corporate finance and strategy leadership roles in companies in the U.S. and internationally, including Grupo Futuro S.A., Citibank and GE Capital.

ANNIE L. BLOOMQUIST, 47

Senior Vice President and Chief Product Officer (Joined the Company in 2008 and was promoted to current role in June 2012)

Annie L. Bloomquist, Sleep Number® setting 25, serves as the Senior Vice President and Chief Product Officer for Select Comfort and leads product innovation including product management, development, merchandise buying, planning and R&D for all Sleep Number products, including SleepIQ Labs. Ms. Bloomquist was the Chief Product and Merchandising Officer from June 2011 to June 2012. Ms. Bloomquist joined Select Comfort in May 2008 as Vice President and General Merchandise Manager. Prior to joining Select Comfort, Ms. Bloomquist held leadership positions in product and merchandising at Macy's and Marshall Field's Department Stores for Target Corporation from 1996 to 2008.

KEVIN K. BROWN, 48

Senior Vice President and Chief Marketing Officer (Joined the Company in 2013)

Kevin K. Brown, Sleep Number® setting 35, serves as the Senior Vice President and Chief Marketing Officer for Select Comfort. Prior to joining Select Comfort in January 2014, Mr. Brown served as Group Vice President, Chief Marketing Officer for Meijer, Inc., a regional chain of retail supercenters, from 2011 to 2013. From 2007 to 2011, Mr. Brown held executive marketing leadership roles at Sears Holdings Corporation, including Vice President, Chief Marketing Officer for the home appliances business unit. Previously, Mr. Brown held the position of Senior Vice President, Marketing for Jo-Ann Stores, Inc., from 2004 to 2006. Prior to Jo-Ann Stores, he was an associate partner for Accenture.

DAVID R. CALLEN, 50

Senior Vice President and Chief Financial Officer (Joined the Company in 2014)

David R. Callen, Sleep Number® setting 40, serves as the Senior Vice President and Chief Financial Officer for Select Comfort. Prior to joining Select Comfort in April 2014, Mr. Callen served as the Principal Financial Officer, Vice President, Finance and Treasurer for Ethan Allen Interiors, Inc., from 2007 to 2014. Previously, Mr. Callen served for more than 15 years in increasingly responsible international financial management positions, emphasizing brand support and manufacturing across industries including automotive, dental, outdoor recreational products, high tech and public accounting.

ANDY P. CARLIN, 53

Senior Vice President and Chief Sales and Services Officer (Joined the Company in 2008 and was promoted to current role in April 2016)

Andy P. Carlin, Sleep Number® setting 55, serves as the Executive Vice President and Chief Sales and Service Officer for Select Comfort and leads all sales channels, real estate and home delivery operations. From June 2012 to April 2016, Mr. Carlin was Senior Vice President and Chief Sales Officer; from May 2011 to June 2012, Mr. Carlin was the Vice President and Chief Sales Officer; and from January 2009 to May 2011, he was the Vice President of U.S. Retail Sales. Mr. Carlin joined Select Comfort in January 2008 as Regional Vice President, East Region. Prior to joining Select Comfort, Mr. Carlin spent more than 20 years in sales leadership roles for companies including Senior Vice President of Store Operations at Gander Mountain from 2003 to 2008, Kohl's Department Stores from 1995 to 2003 and the department store division of Target Corporation from 1986 to 1995.

PATRICIA A. DIRKS, 60

Senior Vice President and Chief Human Capital Officer (Joined the Company in 2014)

Patricia A. Dirks (Tricia), Sleep Number® setting 35, serves as the Senior Vice President and Chief Human Capital Officer for Select Comfort and leads all human capital functions. Prior to joining Select Comfort in April 2014, Ms. Dirks served as Senior Vice President of Organizational Effectiveness for Target Corporation. From 2004 to 2011, Ms. Dirks was Vice President Human Resources for Target Corporation. Prior to 2004, Ms. Dirks held various human resources leadership positions at Marshall Field's Department Stores for Target Corporation, including Senior Vice President of Human Resources.

MARK A. KIMBALL, 58

Senior Vice President and Chief Legal and Risk Officer and Secretary (Joined the Company in 1999)

Mark A. Kimball, Sleep Number® setting 55, serves as the Senior Vice President, Chief Legal and Risk Officer and Secretary. From August 2003 to June 2011, Mr. Kimball held the position of Senior Vice President, General Counsel, Chief Administrative Officer and Secretary. From July 2000 to August 2003, Mr. Kimball served as Senior Vice President, Human Resources and Legal, General Counsel, Chief Administrative Officer and Secretary. From May 1999 to July 2000, Mr. Kimball served as the company's Senior Vice President, Chief Administrative Officer, General Counsel and Secretary. For more than five years prior to joining Select Comfort, Mr. Kimball was a partner in the law firm of Oppenheimer Wolff & Donnelly LLP practicing in the area of corporate finance.

SURESH KRISHNA, 48

Senior Vice President and Chief Operations, Supply Chain and Lean Officer (Joined the Company in 2016)

Suresh Krishna, Sleep Number® setting 40, serves as the Senior Vice President and Chief Operations, Supply Chain and Lean Officer of Select Comfort. Prior to joining Select Comfort, Mr. Krishna served as Vice President of Global Operations and Integration at Polaris from 2010 to 2014, leading a 6,500+ person operations organization and driving a culture change to embrace lean across the entire enterprise. In July 2014, he was promoted to Vice President and Business Unit Head of Europe Middle East & Africa (EMEA) for Polaris, where he was responsible for a full P&L with factories, R&D centers, subsidiaries, distributors and dealer networks across more than 60 countries. From 2007 to 2010, he served as Vice President Global Operations, Supply Chain and IT at a division of UTC Fire & Security. Krishna also served in a variety of roles for Diageo, including Vice President of Supply Chain, North America; as a Program Director for an ERP implementation; and as a Director of Strategic Planning and Finance. Earlier in his career he was an associate at Booz Allen & Hamilton.

J. HUNTER SAKLAD, 47

Senior Vice President, Chief Information Officer (Joined the Company in 2004 and was promoted to current role in December 2012)

Hunter Saklad, Sleep Number® setting 50, serves as the Senior Vice President and Chief Information Officer at Select Comfort. From June 2011 to December 2012, he served as the Vice President, Consumer Insight and Strategy at Select Comfort. From March 2006 to June 2011, he was Vice President of Finance and held a variety of positions across Finance serving business partners in marketing, sales, supply chain, FP&A, investor relations and treasury. Mr. Saklad joined Select Comfort in October 2004 as Sr. Director of Finance. Prior to joining Select Comfort, Mr. Saklad held finance leadership roles at Ford Motor Company and Visteon.

Available Information

We are subject to the reporting requirements of the Exchange Act and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Copies of our reports, proxy statements and other information can be read and copied at:

SEC Public Reference Room
100 F Street NE
Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's home page at *http://www.sec.gov*.

Our corporate Internet website is *www.SleepNumber.com*. Through a link to a third-party content provider, our corporate website provides free access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after electronic filing with the SEC. These documents are posted on our website at *www.SleepNumber.com* — select the "*About*" link, the "*Investor Relations*" link and then the "*SEC Filings*" link. The information contained on our website or connected to our website is not incorporated by reference into this Form 10-K and should not be considered part of this report.

We also make available, free of charge on our website, the charters of the Audit Committee, Management Development and Compensation Committee, and Corporate Governance and Nominating Committee as well as our Code of Business Conduct (including any amendment to, or waiver from, a provision of our Code of Business Conduct) adopted by our Board. These documents are posted on our website — select the "*About*" link, the "*Investor Relations*" link and then the "*Corporate Governance*" link.

Copies of any of the above referenced information will also be made available, free of charge, upon written request to:

Select Comfort Corporation
Investor Relations Department
9800 59th Avenue North
Minneapolis, MN 55442

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the specific risks set forth below and other matters described in this Annual Report on Form 10-K before making an investment decision. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties, including risks and uncertainties not presently known to us or that we currently see as immaterial, may also harm our business. If any of these risks occur, our business, results of operations, cash flows and financial condition could be materially and adversely affected.

Current and future economic conditions could materially adversely affect our sales, profitability, cash flows and financial condition.

Our success depends significantly upon discretionary consumer spending, which is influenced by a number of general economic factors, including without limitation economic growth, consumer confidence, the housing market, employment and income levels, interest rates, inflation, taxation and the level of customer traffic in malls and shopping centers. Adverse trends in any of these economic factors may adversely affect our sales, profitability, cash flows and financial condition.

Our future growth and profitability depends upon the effectiveness and efficiency of our marketing programs.

We are highly dependent on the effectiveness of our marketing messages and the efficiency of our advertising expenditures in generating consumer awareness and sales of our products. We continue to evolve our marketing strategies, adjusting our messages, the amount we spend on advertising and where we spend it. We may not always be successful in developing effective messages, as the consumer and competition changes, and in achieving efficiency in our advertising expenditures.

Consumers are increasingly using digital tools as a part of their shopping experience. As a result, our future growth and profitability will depend in part on (i) the effectiveness and efficiency of our on-line experience including advertising and search optimization programs in generating consumer awareness and sales of our products, (ii) our ability to prevent confusion among consumers that can result from search engines that allow competitors to use or bid on our trademarks to direct consumers to competitors' websites, (iii) our ability to prevent Internet publication of false or misleading information regarding our products or our competitors' products; (iv) the nature and tone of consumer sentiment published on various social media sites; and (v) the stability of our website. In recent periods, a number of direct-to-consumer, Internet-based retailers have emerged and have driven up the cost of basic search terms, which has and may continue to increase the cost of our Internet-based marketing programs.

If our marketing messages are ineffective or our advertising expenditures and other marketing programs, including digital programs, are inefficient in creating awareness and consideration of our products and brand name, in driving consumer traffic to our website or stores, our sales, profitability, cash flows and financial condition may be adversely impacted. In addition, if we are not effective in preventing the publication of confusing, false or misleading information regarding our brand or our products, or if there was significant negative consumer sentiment on social media regarding our brand or our products, our sales, profitability, cash flows and financial condition may be adversely impacted.

Our future growth and profitability depends on our ability to execute our Company-Controlled distribution strategy.

The vast majority of our sales occur through our Company-Controlled distribution channel, including our retail stores, and this Company-Controlled distribution channel represents our largest opportunity for growth in sales and improvement in profitability. Our retail stores carry significant fixed costs. We also make significant capital expenditures as we open new stores and remodel or reposition existing stores. We are highly dependent on our ability to maintain and increase sales per store to cover these fixed expenses, provide a return on our capital investments and improve our operating margins.

Many of our stores are mall-based. We depend on the continued popularity of malls as shopping destinations and the ability of mall anchor tenants and other attractions to generate customer traffic for our retail stores. Any decrease in mall traffic could adversely affect our sales, profitability, cash flows and financial condition.

Our Company-Controlled distribution strategy results in relatively few points of distribution, including 540 retail stores in 49 U.S. states as of the end of 2016. Several of the mattress manufacturers and retailers with which we compete have significantly more points of distribution than we do, which makes us highly dependent on our ability to drive consumers to our points of distribution in order to gain market share.

Our longer term Company-Controlled distribution strategy is also dependent on our ability to renew existing store leases and to secure suitable locations for new store openings, in each case on a cost-effective basis. We may encounter higher than anticipated rents and other costs in connection with managing our retail store base, or may be unable to find or obtain suitable new locations.

Failure to achieve and maintain a high level of product quality could negatively impact our sales, profitability, cash flows and financial condition.

Our products are highly differentiated from traditional innerspring mattresses and from viscoelastic foam mattresses, which have little or no technology and do not rely on electronics and air control systems. As a result, our beds may be susceptible to failures that do not exist with traditional or viscoelastic foam mattresses. Failure to achieve and maintain acceptable quality standards could impact consumer acceptance of our products or could result in negative media and Internet reports or owner dissatisfaction that could negatively impact our brand image and sales levels.

In addition, a decline in product quality could result in an increase in return rates and a corresponding decrease in sales, or an increase in product warranty claims in excess of our warranty reserves. An unexpected increase in return rates or warranty claims could harm our sales, profitability, cash flows and financial condition.

As a consumer innovation company with differentiated products, we face an inherent risk of exposure to product liability claims if the use of our products is alleged to have resulted in personal injury or property damage. If any of our products proves to be defective, we may be required to recall or redesign such products. We have at times experienced increased returns and adverse impacts on sales, as well as product liability litigation, as a result of media reports related to the alleged propensity of our products to develop mold. We may experience additional adverse impacts on sales and additional litigation if any similar media reports were to occur in the future. We maintain insurance against some forms of product liability claims, but such coverage may not be adequate for liabilities actually incurred. A successful claim brought against us in excess of available insurance coverage, or any claim or product recall that results in significant adverse publicity against us, may have a material adverse effect on our sales, profitability, cash flows and financial condition.

Our future growth and profitability depends in part on our ability to continue to improve and expand our product line and to successfully execute new product introductions.

As described in greater detail below, the mattress industry, as well as the market for sleep monitoring products, are both highly competitive, and our ability to compete effectively and to profitably grow our market share depends in part on our ability to continue to improve and expand our product line of adjustable firmness air beds, SleepIQ technology and related accessory products. We incur significant research and development and other expenditures in the pursuit of improvements and additions to our product line. If these efforts do not result in meaningful product improvements or new product introductions, or if we are not able to gain widespread consumer acceptance of product improvements or new product introductions, our sales, profitability, cash flows and financial condition may be adversely affected. In addition, if any significant product improvements or new product introductions are not successful, our reputation and brand image may be adversely affected.

Beginning in 2017, we plan to introduce a new line of mattresses to replace our current line of mattresses. This new product launch will result in significant transition costs in our supply chain and retail stores. If we are not able to gain widespread consumer acceptance of this new product line, or if we do not successfully execute the new product introduction effectively and efficiently, our sales, profitability, cash flows and financial condition may be adversely affected.

Significant competition could adversely affect our business.

Because of the vertical integration of our business model, our products and distribution channels face significant competition from both manufacturers of different types of mattresses and a variety of retailers. Our SleepIQ technology also faces significant competition from various manufacturers and retailers of sleep tracking and monitoring products.

The mattress industry is characterized by a high degree of concentration among the largest manufacturers of innerspring mattresses and viscoelastic foam mattresses and one dominant national mattress retailer. Many newer competitors (approximately 50 to 100) in the mattress industry have begun to offer “bed-in-a-box” or similar products directly to consumers through the Internet and other distribution channels.

A variety of sleep tracking and monitoring products that compete with our SleepIQ technology have been introduced by various manufacturers and retailers, both within and outside of the traditional mattress industry.

Some of the manufacturers that we compete with have substantially greater financial, marketing and manufacturing resources and greater brand name recognition than we do and sell products through broader and more established distribution channels. Our national, exclusive distribution competes with other retailers who generally provide a wider selection of mattress alternatives than we offer. A number of these retailers also have more points of distribution and greater brand name recognition than we do. In recent periods, a number of direct-to-consumer, Internet-based retailers have emerged and have driven up the cost of basic search terms, which has and may continue to increase the cost of our Internet-based marketing programs.

These manufacturing and retailing competitors, or new entrants into the market, may compete aggressively and gain market share with existing or new products, and may pursue or expand their presence in the adjustable firmness air bed segment of the market as well as in the market for sleep tracking and monitoring products. We have limited ability to anticipate the timing and scale of new product introductions, advertising campaigns or new pricing strategies by our competitors, which could inhibit our ability to retain or increase market share, or to maintain our product margins.

If we are unable to effectively compete with other manufacturers and retailers of mattress and sleep tracking and monitoring products, our sales, profitability, cash flows and financial condition may be adversely impacted.

Our intellectual property rights may not prevent others from using our technology or trademarks in connection with the sale of competitive products. We may be subject to claims that our products, processes or trademarks infringe intellectual property rights of others.

We own various U.S. and foreign patents and patent applications related to certain elements of the design and function of our beds and related products. We own numerous registered and unregistered trademarks and trademark applications, including in particular our Sleep Number and *SleepIQ* trademarks, as well as other intellectual property rights, including trade secrets, trade dress and copyrights, which we believe have significant value and are important to the marketing of our products. These intellectual property rights may not provide sufficient protection against infringement or piracy, may not prevent competitors from developing and marketing products that are similar to or competitive with our beds or other products, and may be costly and time-consuming to protect and enforce. Our patents are also subject to varying expiration dates. In particular, one of our U.S. patents related to a firmness control system for use with an adjustable air mattress will expire in July of 2017. In addition, the laws of some foreign countries may not protect our intellectual property rights and confidential information to the same extent as the laws of the United States. If we are unable to protect and enforce our intellectual property, we may be unable to prevent other companies from using our technology or trademarks in connection with competitive products, which could adversely affect our sales, profitability, cash flows and financial condition.

We may be subject to claims that our products, processes or trademarks infringe the intellectual property rights of others. The defense of these claims, even if we are ultimately successful, may result in costly litigation, and if we are not successful in our defense, we could be subject to injunctions, liability for damages or royalty obligations and our sales, profitability, cash flows and financial condition could be adversely affected.

A reduction in the availability of credit to consumers generally or under our existing consumer credit programs could harm our sales, profitability, cash flows and financial condition.

A significant percentage of our sales are made under consumer credit programs through third parties. The amount of credit available to consumers may be adversely impacted by macroeconomic factors that affect the financial position of consumers and as suppliers of credit adjust their lending criteria. In addition, changes in federal regulations effective in 2010 placed additional restrictions on all consumer credit programs, including limiting the types of promotional credit offerings that may be offered to consumers.

Synchrony Bank provides credit to our customers through a private label credit card agreement that is currently scheduled to expire on December 31, 2020, subject to earlier termination upon certain events. Synchrony Bank has discretion to control the content of financing offers to our customers and to set minimum credit standards under which credit is extended to customers.

Reduction of credit availability due to changing economic conditions, changes in credit standards under our private label credit card program or changes in regulatory requirements, or the termination of our agreement with Synchrony Bank, could harm our sales, profitability, cash flows and financial condition.

We utilize "just-in-time" manufacturing processes with minimal levels of inventory, which could leave us vulnerable to shortages in supply of components that may harm our ability to satisfy consumer demand and may adversely impact our sales and profitability.

A significant percentage of our products are assembled after we receive orders from customers utilizing "just-in-time" manufacturing processes with minimal levels of raw materials, work-in-process inventories and finished goods inventories. Lead times for ordered components may vary significantly. In addition, some components used to manufacture our products are provided on a sole source basis. Any unexpected shortage of materials caused by any disruption of supply or an unexpected increase in the demand for our products, could lead to delays in shipping our beds to customers. Any such delays could adversely affect our sales, customer satisfaction, profitability, cash flows and financial condition.

We rely upon several key suppliers that are, in some instances, the only source of supply currently used by us for particular materials, components or services. A disruption in the supply or substantial increase in cost of any of these products or services could harm our sales, profitability, cash flows and financial condition.

We currently obtain all of the materials and components used to produce our beds from outside sources including some who are located outside the United States. In several cases, including our proprietary air chambers, our proprietary blow-molded foundations, our adjustable foundations, various components for our Firmness Control systems, as well as fabrics and zippers, we have chosen to obtain these materials and components from suppliers who serve as the only source of supply, or who supply the vast majority of our needs of the particular material or component. While we believe that these materials and components, or suitable replacements, could be obtained from other sources, in the event of a disruption or loss of supply of relevant materials or components for any reason, we may not be able to find alternative sources of supply, or if found, may not be found on comparable terms. If our relationship with the primary supplier of our air chambers, the supplier of our blow-molded foundations or the supplier of our adjustable foundations is terminated, we could have difficulty in replacing these sources since there are relatively few other suppliers presently capable of manufacturing these components.

Similarly, we rely on UPS and other carriers to deliver some of our products to customers on a timely and cost-effective basis. Any significant delay in deliveries to our customers could lead to increased returns and cause us to lose sales. Any increase in freight charges could increase our costs of doing business and harm our sales, profitability, cash flows and financial condition.

Fluctuations in commodity prices could result in an increase in component costs and/or delivery costs.

Our business is subject to significant increases or volatility in the prices of certain commodities, including but not limited to fuel, oil, natural gas, rubber, cotton, plastic resin, steel and chemical ingredients used to produce foam. Increases in prices of these commodities or other inflationary pressures may result in significant cost increases for our raw materials and product components, as well as increases in the cost of delivering our products to our customers. To the extent we are unable to offset any such increased costs through value engineering and similar initiatives, or through price increases, our profitability, cash flows and financial condition may be adversely impacted. If we choose to increase prices to offset the increased costs, our sales volumes could be adversely impacted.

Our business is subject to risks inherent in global sourcing activities.

Our air chambers and some of our other components are manufactured outside the United States, and therefore are subject to risks associated with foreign sourcing of materials, including but not limited to:

- Political instability resulting in disruption of trade;
- Existing or potential duties, tariffs or quotas on certain types of goods that may be imported into the United States;
- Disruptions in transportation due to acts of terrorism, shipping delays, foreign or domestic dock strikes, customs inspections or other factors;
- Foreign currency fluctuations; and
- Economic uncertainties, including inflation.

These factors could increase our costs of doing business with foreign suppliers, lead to inadequate inventory levels or delays in shipping beds to our customers, which could harm our sales, customer satisfaction, profitability, cash flows and financial condition.

Disruption of operations in either of our two main manufacturing facilities could increase our costs of doing business or lead to delays in shipping our beds.

We have two main manufacturing plants, which are located in Irmo, South Carolina and Salt Lake City, Utah. A significant percentage of our products are assembled to fulfill orders rather than stocking finished goods inventory in our plants or stores. Therefore, the disruption of operations of either of our two main manufacturing facilities for a significant period of time may increase our costs of doing business and lead to delays in shipping our beds to customers. Such delays could adversely affect our sales, customer satisfaction, profitability, cash flows and financial condition.

Our business is subject to a wide variety of government laws and regulations. These laws and regulations, as well as any new or changed laws or regulations, could disrupt our operations or increase our compliance costs. Failure to comply with such laws and regulations could have further adverse impact.

We are subject to a wide variety of laws and regulations relating to the bedding industry or to various aspects of our business. Laws and regulations at the federal, state and local levels frequently change and we cannot always reasonably predict the impact from, or the ultimate cost of compliance with, future regulatory or administrative changes. Changes in law, the imposition of new or additional regulations or the enactment of any new or more stringent legislation that impacts employment and labor, trade, advertising and marketing practices, pricing, consumer credit offerings, product testing and safety, transportation and logistics, health care, tax, accounting, privacy and data security, health and safety or environmental issues, among others, could require us to change the way we do business and could have a material adverse impact on our sales, profitability, cash flows and financial condition. New or different laws or regulations could increase direct compliance costs for us or may cause our vendors to raise the prices they charge us because of increased compliance costs. Further, the adoption of a multi-layered regulatory approach to any one of the state or federal laws or regulations to which we are currently subject, particularly where the layers are in conflict, could require alteration of our manufacturing processes or operational parameters which may adversely impact our business.

Legislative or regulatory changes that impact our relationship with our workforce, such as minimum wage requirements or health insurance or other employee benefits mandates, could increase our expenses and adversely affect our operations.

While it is our policy and practice to comply with legal and regulatory requirements and our procedures and internal controls are designed to promote such compliance, we cannot assure that all of our operations will comply with all such legal and regulatory requirements. Further, laws and regulations change over time and we may be required to incur significant expenses and/or to modify our operations in order to ensure compliance. This could harm our profitability or financial condition. If we are found to be in violation of any laws or regulations, we could become subject to fines, penalties, damages or other sanctions as well as potential adverse publicity or litigation exposure. This could adversely impact our business, reputation, sales, profitability, cash flows or financial condition.

Regulatory requirements related to flammability standards for mattresses may increase our product costs and increase the risk of disruption to our business.

The federal Consumer Product Safety Commission adopted new flammability standards and related regulations which became effective nationwide in July 2007 for mattresses and mattress and foundation sets. Compliance with these requirements has resulted in higher materials and manufacturing costs for our products, and has required modifications to our information systems and business operations, further increasing our costs and negatively impacting our capacity.

These regulations require manufacturers to implement quality assurance programs and encourage manufacturers to conduct random testing of products. These regulations also require maintenance and retention of compliance documentation. These quality assurance and documentation requirements are costly to implement and maintain. If any product testing, other evidence, or regulatory inspections yield results indicating that any of our products may not meet the flammability standards, we may be required to temporarily cease production and distribution and/or to recall products from the field, and we may be subject to fines or penalties, any of which outcomes could harm our business, reputation, sales, profitability, cash flows and financial condition.

Pending or unforeseen litigation and the potential for adverse publicity associated with litigation could adversely impact our business, reputation, financial results or financial condition.

We are involved from time to time in various legal proceedings arising in the ordinary course of our business, including primarily commercial, product liability, employment and intellectual property claims. We currently do not expect the outcome of any pending matters to have a material effect on our 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 pending claims asserted against us, or claims that may be asserted in the future that we are currently not aware of, or adverse publicity resulting from any such litigation, could adversely impact our business, reputation, sales, profitability, cash flows and financial condition.

Any improvements or upgrades to our management information systems that may be required to meet the evolving needs of our business as well as existing and emerging regulatory requirements may be costly to implement and may take longer or require greater resources than anticipated, and may result in disruptions to our systems or business.

We depend on our management information systems for many aspects of our business. In the fourth quarter of 2015, we implemented a new ERP system and continue to implement operational improvements under this new system. If our new systems are disrupted in any material way, or improvements or upgrades are required to meet the evolving needs of our business and existing and emerging regulatory requirements, we may be required to incur significant capital expenditures in the pursuit of improvements or upgrades to our management information systems. These efforts may take longer and may require greater financial and other resources than anticipated, may cause distraction of key personnel, and may cause short-term disruptions to our existing systems and our business. Any of these outcomes could impair our ability to achieve critical strategic initiatives and could adversely impact our sales, profitability, cash flows and financial condition.

Our information systems may be subject to attacks by hackers or other cyber threats that could compromise the security of our systems, which could substantially disrupt our business and could result in the breach of consumers' or employees' private data.

Our information systems contain personal information related to our customers and employees in the ordinary course of our business, such as credit card and demographic information of our customers, SleepIQ data from our customer base and social security numbers and demographic information of our employees. While we maintain security measures to protect this information, a breach of these security measures, such as through third-party action, employee error, malfeasance or otherwise, could compromise the security of our customers’ and employees’ personal information. As the techniques used to breach such security measures change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. Any failure of our systems and processes to adequately protect customer or employee personal information from theft or loss could adversely impact our business, reputation, sales, profitability, cash flows and financial condition.

Our future growth and profitability depends in part upon our ability to attract, retain and motivate qualified personnel.

As a vertically integrated manufacturer and retailer, our future growth and profitability will depend in part upon our ability to attract, retain and motivate qualified personnel in a wide variety of areas to execute our growth strategy, including qualified management and executive personnel and qualified retail sales professionals and managers. The failure to attract, retain and motivate qualified personnel may hinder our ability to execute our business strategy and growth initiatives and may adversely impact our sales, profitability, cash flows and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Retail Locations

We currently lease all of our existing retail store locations and expect that our policy of leasing stores, rather than owning stores, will continue. We lease our retail stores under operating leases which, in addition to the minimum lease payments, require payment of a proportionate share of the real estate taxes and certain building operating expenses. Our retail store leases generally provide for an initial lease term of five to 10 years. In addition, our mall-based retail store leases may require payment of contingent rent based on net sales in excess of certain thresholds. Certain retail store leases may contain options to extend the term of the original lease.

The following table summarizes the geographic location of our 540 retail stores as of December 31, 2016:

	Retail Stores		Retail Stores		Retail Stores
Alabama	8	Maine	2	Oklahoma	4
Alaska	1	Maryland	12	Oregon	6
Arizona	9	Massachusetts	10	Pennsylvania	20
Arkansas	4	Michigan	15	Rhode Island	1
California	64	Minnesota	14	South Carolina	7
Colorado	13	Mississippi	5	South Dakota	2
Connecticut	6	Missouri	13	Tennessee	11
Delaware	2	Montana	4	Texas	49
Florida	38	Nebraska	3	Utah	4
Georgia	20	Nevada	5	Vermont	1
Idaho	3	New Hampshire	4	Virginia	18
Illinois	20	New Jersey	15	Washington	13
Indiana	11	New Mexico	4	West Virginia	2
Iowa	8	New York	17	Wisconsin	11
Kansas	7	North Carolina	14	Wyoming	1
Kentucky	8	North Dakota	4		
Louisiana	8	Ohio	19	Total	540

Manufacturing, Distribution and Headquarters

We lease our 159,000-square-foot corporate headquarters in the Minneapolis, Minnesota area. The lease commenced in November 2007 and runs through October 2017.

We also lease approximately 122,000 square feet in the Minneapolis, Minnesota area that includes our research and development department, customer service department and a distribution center that accepts returns, fulfills accessory orders and processes warranty claims. This lease runs through October 2017.

We have entered into a new lease to replace our current corporate headquarters and a second building also expiring in October 2017. The new lease is for approximately 211,000 square feet and is located in Minneapolis, Minnesota. The lease term will commence in November 2017 and runs through October 2032. The lease includes three five-year renewal options.

We lease two manufacturing and distribution centers in Irmo, South Carolina and Salt Lake City, Utah of approximately 151,000 square feet and approximately 101,000 square feet, respectively. The Irmo facility lease runs through June 2026, with two five-year renewal options. The Salt Lake City facility lease runs through July 2020, with two five-year renewal options. We also lease a storage facility in Salt Lake City of approximately 57,000 square feet through April 2020.

We lease three buildings used for manufacturing purposes for our Comfortaire business in Greenville, South Carolina of approximately 65,000 total square feet. The current lease term for these three buildings runs through June 2017.

We lease one facility for our SleepIQ LABS operations in San Jose, California of approximately 13,050 square feet which runs through August 2018 and contains one three-year renewal option.

ITEM 3. LEGAL PROCEEDINGS

We are involved from time to time in various legal proceedings arising in the ordinary course of our business, including primarily commercial, product liability, employment and intellectual property claims. In accordance with generally accepted accounting principles in the United States, we record a liability in our 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. With respect to currently pending legal proceedings, we have not established an estimated range of reasonably possible additional losses either because we believe that we have valid defenses to claims asserted against us or the proceeding has not advanced to a stage of discovery that would enable us to establish an estimate. We currently do not expect the outcome of these matters to have a material effect on our 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 us could adversely impact our consolidated results of operations, financial position or cash flows. We expense legal costs as incurred.

On January 12, 2015, Plaintiffs David and Katina Spade commenced a purported class action lawsuit in New Jersey state court against Select Comfort alleging that Select Comfort violated New Jersey consumer statutes by failing to provide to purchasing consumers certain disclosures required by the New Jersey Furniture Regulations. It is undisputed that plaintiffs suffered no actual damages or in any way relied upon or were impacted by the alleged omissions. Nonetheless, on behalf of a purported class of New Jersey purchasers of Select Comfort beds and bases, plaintiffs seek to recover a $100 statutory fine for each alleged omission, along with attorneys' fees and costs. Select Comfort removed the case to the United States District Court for the District of New Jersey, which subsequently granted Select Comfort's motion to dismiss. Plaintiffs appealed to the United States Court of Appeals for the Third Circuit, which has certified two questions of law to the New Jersey Supreme Court relating to whether plaintiffs who have suffered no actual injury may bring claims. The New Jersey Supreme Court has not yet indicated whether it will accept the certification. As the United States District Court for the District of New Jersey agreed, we believe that the case is without merit and the order of dismissal should be affirmed.

On December 4, 2015, Saeid Azimpour, a consumer, filed a purported class-action lawsuit in U.S. District Court in Minnesota alleging he was fraudulently induced to purchase a down alternative pillow at a Sleep Number store based on signage that indicated that the pillow was 50% off. Plaintiff alleged that the price he paid for the pillow was not truly 50% off the price at which Sleep Number previously sold the pillow. Plaintiff asserted 10 causes of action including consumer fraud, unlawful trade practices, deceptive trade practices under Minnesota law, violation of the Minnesota false advertising law, unjust enrichment, violation of the California unfair competition law, violation of the California false advertising law and violation of the California remedies act. Plaintiff sought to represent all individuals who "purchased one or more items from the Company advertised or priced at a discount from the original retail price at any time between December 1, 2011 and present." Plaintiff sought injunctive relief, damages, disgorgement and attorneys' fees. On June 13, 2016, the Court dismissed the case without prejudice. On August 25, 2016, plaintiff filed a new complaint asserting claims and prayers for relief similar to those described above. On January 4, 2017, plaintiff agreed to dismissal of all claims including dismissal with prejudice of the class claims asserted in this case.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on The NASDAQ Stock Market LLC (NASDAQ Global Select Market) under the symbol "SCSS." As of January 28, 2017, there were approximately 237 holders of record of our common stock. The following table sets forth the quarterly high and low sales prices per share of our common stock, at closing, as reported by NASDAQ for the two most recent fiscal years.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2016				
High	$ 21.24	$ 24.68	$ 27.68	$ 24.33
Low	15.58	19.17	21.31	18.55
Fiscal 2015				
High	$ 34.62	$ 34.50	$ 30.79	$ 25.50
Low	26.43	29.11	21.34	20.63

We are not restricted from paying cash dividends under our credit agreement so long as we are not in default under the credit agreement and so long as the payment of such dividends would not create an event of default. However, we have not historically paid, and have no current plans to pay, cash dividends on our common stock.

Information concerning share repurchases completed during the fourth quarter of fiscal 2016 is set forth below:

Fiscal 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)
October 2, 2016 through October 29, 2016	387,378	$ 20.40	387,181	$ 267,102,000
October 30, 2016 through November 26, 2016	359,486	21.14	356,952	259,557,000
November 27, 2016 through December 31, 2016	632,844	23.02	632,340	245,000,000
Total	1,379,708	$ 21.79	1,376,473	$ 245,000,000

(1) Under the current Board-approved $300 million share repurchase program, we repurchased 1,376,473 shares of our common stock at a cost of $30 million (based on trade dates) during the three months ended December 31, 2016.

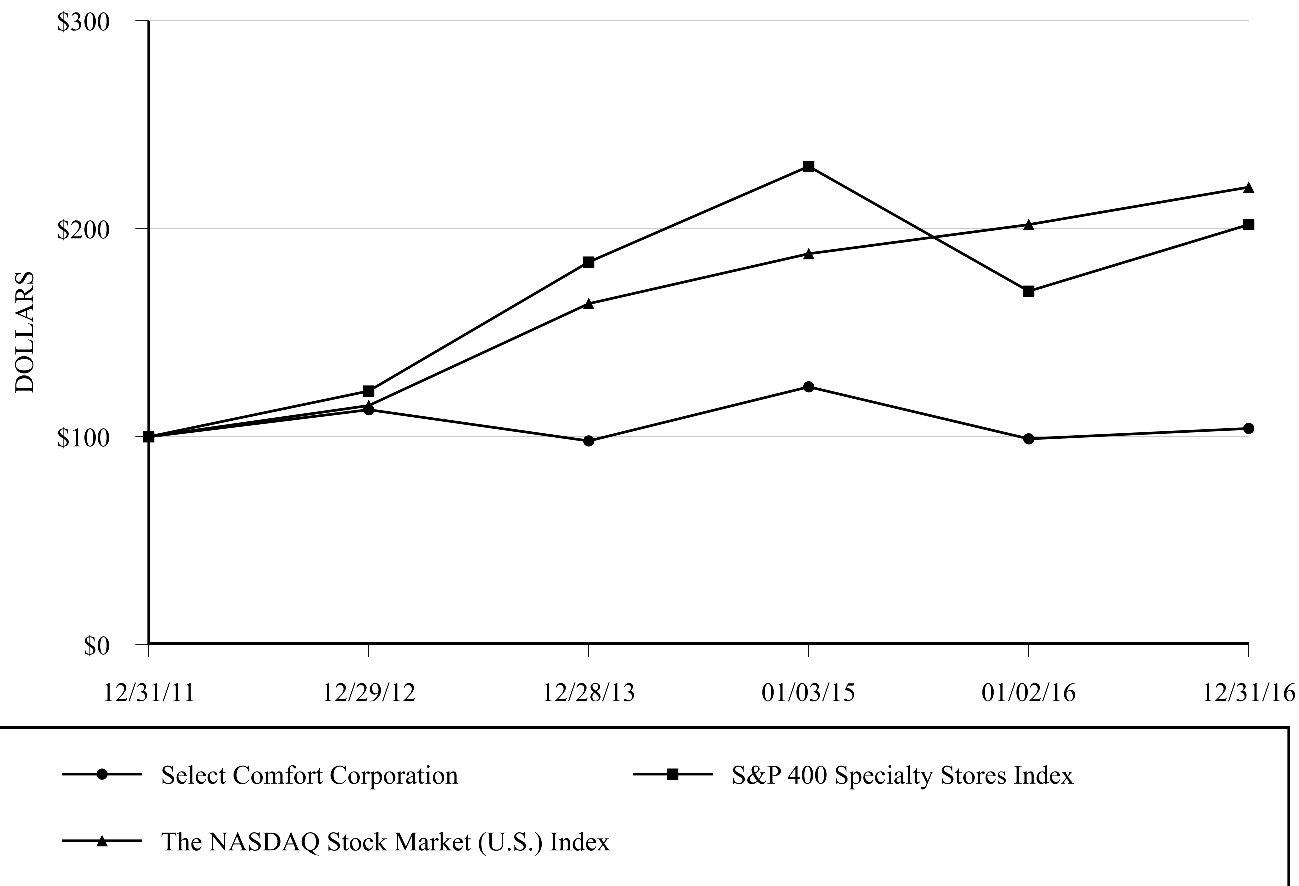
(2) In connection with the vesting of employee restricted stock grants, we also repurchased 3,235 shares of our common stock at a cost of $68,000 during the three months ended December 31, 2016.

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

Comparative Stock Performance

The graph below compares the total cumulative shareholder return on our common stock over the last five years to the total cumulative return on the Standard and Poor's (S&P) 400 Specialty Stores Index and The NASDAQ Stock Market (U.S.) Index assuming a $100 investment made on December 31, 2011. Each of the three measures of cumulative total return assumes reinvestment of dividends. The stock performance shown on the graph below is not necessarily indicative of future price performance. The information contained in this "Comparative Stock Performance" section shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that we specifically request that it be treated as soliciting material or incorporate it by reference into a document filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
AMONG SELECT COMFORT CORPORATION, S&P 400 SPECIALTY STORES INDEX,
AND THE NASDAQ STOCK MARKET (U.S.) INDEX



	12/31/2011	12/29/2012	12/28/2013	1/3/2015	1/2/2016	12/31/2016
Select Comfort Corporation	$ 100	$ 113	$ 98	$ 124	$ 99	$ 104
S&P 400 Specialty Stores Index	100	122	184	230	170	202
The NASDAQ Stock Market (U.S.) Index	100	115	164	188	202	220

ITEM 6. SELECTED FINANCIAL DATA

(in thousands, except per share and selected operating data, unless otherwise indicated)

The Consolidated Statements of Operations Data and Consolidated Balance Sheet Data presented below have been derived from our Consolidated Financial Statements and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and Notes thereto included in this Annual Report on Form 10-K.

	Year				
	2016	**2015**	**2014(1)**	**2013**	**2012**
Consolidated Statements of Operations Data:					
Net sales	$ 1,311,291	$ 1,213,699	$ 1,156,757	$960,171	$ 934,978
Gross profit	810,160	740,751	706,850	601,755	596,546
Operating expenses:					
Sales and marketing	595,845	550,475	512,007	439,156	398,205
General and administrative	109,674	99,209	84,864	62,967	66,765
Research and development	27,991	15,971	8,233	9,478	6,194
Other(2)	—	—	—	(534)	5,595
Operating income	76,650	75,096	101,746	90,688	119,787
Net income	$ 51,417	$ 50,519	$ 67,974	$ 60,081	$ 78,094
Net income per share:					
Basic	$ 1.11	$ 0.99	$ 1.27	$ 1.10	$ 1.41
Diluted	$ 1.10	$ 0.97	$ 1.25	$ 1.08	$ 1.37
Shares used in calculation of net income per share:					
Basic	46,154	51,252	53,452	54,866	55,516
Diluted	46,902	52,101	54,193	55,803	57,076
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable debt securities	$ 11,609	$ 36,114	$ 166,045	$145,014	$ 177,821
Total assets	457,166	500,897	474,187	381,765	342,021
Total shareholders' equity	160,320	222,339	256,907	225,220	193,697
Selected Operating Data:					
Stores open at period-end	540	488	463	440	410
Stores opened during period	72	38	57	71	57
Stores closed during period	20	13	34	41	28
Average revenue per store (000's)(3)	$ 2,364	$ 2,377	$ 2,327	$ 2,093	$ 2,164
Percentage of stores with more than $1.0 million in net sales(3)	98%	99%	98%	96 %	98%
Percentage of stores with more than $2.0 million in net sales(3)	61%	62%	59%	46 %	49%
Average revenue per mattress unit - Company-Controlled channel(4)	$ 4,046	$ 4,028	$ 3,671	$ 3,245	$ 3,050
Company-Controlled comparable-sales increase (decrease)(5)	1%	3%	12%	(4)%	23%
Total retail square footage (at period-end) (000's)	1,399	1,214	1,106	949	759
Average square footage per store open during period(3)	2,538	2,445	2,302	1,985	1,670
Net sales per square foot(3)	$ 937	$ 980	$ 1,025	$ 1,077	$ 1,324
Average store age (in months at period-end)	93	99	97	102	113
Earnings before interest, depreciation and amortization (Adjusted EBITDA)(6)	$ 145,689	$ 133,057	$ 148,223	$125,020	$ 150,285
Free cash flows(6)	$ 93,793	$ 22,356	$ 67,874	$ 11,294	$ 49,033
Return on Invested Capital (ROIC)(6)	12.2%	11.2%	15.1%	15.1 %	21.5%

(1) Fiscal year 2014 had 53 weeks. All other fiscal years presented had 52 weeks.

(2) In February 2012, we announced that William R. McLaughlin, then President and CEO, would retire from the Company effective June 1, 2012. In recognition of Mr. McLaughlin's contributions, the Compensation Committee approved the modification of Mr. McLaughlin's unvested stock awards, including performance-based stock awards. As a result of these modifications, we recorded incremental non-cash compensation of $5.6 million ($3.7 million, net of income tax). The performance-based stock awards were subject to applicable adjustments through 2014 based on actual performance. During 2013, we recorded a non-cash compensation benefit of $0.5 million ($0.4 million, net of income tax) resulting from performance-based stock award adjustments. There were no performance-based stock award adjustments in 2014, 2015 or 2016.

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

(4) Represents Company-Controlled channel total net sales divided by Company-Controlled channel mattress units.

(5) Stores are included in the comparable sales calculation in the 13th full month of operation. Stores that have been remodeled or repositioned within the same shopping center remain in the comparable-store base. The number of comparable stores used to calculate such data was 459, 442, 396, 359 and 348 for 2016, 2015, 2014, 2013 and 2012, respectively. Fiscal 2014 included 53 weeks, as compared to 52 weeks for the other periods presented. Comparable sales have been adjusted and reported as if all years had the same number of weeks.

(6) These non-GAAP measures are not in accordance with, or preferable to, GAAP financial data. However, we are providing this information as we believe it facilitates annual and year-over-year comparisons for investors and financial analysts. See pages 23 and 24 for the reconciliation of these non-GAAP measures to the appropriate GAAP measures.

Non-GAAP Data Reconciliations

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

We define earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) as net income plus: income tax expense, interest expense, depreciation and amortization, stock-based compensation and asset impairments. Management believes Adjusted EBITDA is a useful indicator of our financial performance and our ability to generate cash from operating activities. Our 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:

	Year				
	2016	**2015**	**2014**	**2013**	**2012**
Net income	$ 51,417	$ 50,519	$ 67,974	$ 60,081	$ 78,094
Income tax expense	24,516	24,911	34,134	30,930	41,911
Interest expense	811	160	53	51	91
Depreciation and amortization	56,910	46,916	38,767	29,599	19,735
Stock-based compensation	11,961	10,290	6,798	4,232	10,306
Asset impairments	74	261	497	127	148
Adjusted EBITDA	$ 145,689	$ 133,057	$ 148,223	$ 125,020	$ 150,285

Free Cash Flow
(in thousands)

Our "free cash flow" data is considered a non-GAAP financial measure and is not in accordance with, or preferable to, "net cash provided by operations," or GAAP financial data. However, we are providing this information as we believe it facilitates analysis for investors and financial analysts.

	Year				
	2016	**2015**	**2014**	**2013**	**2012**
Net cash provided by operating activities	$ 151,645	$ 107,942	$ 144,468	$ 88,105	$ 100,626
Less: Purchases of property and equipment	(57,852)	(85,586)	(76,594)	(76,811)	(51,593)
Free cash flow	$ 93,793	$ 22,356	$ 67,874	$ 11,294	$ 49,033

Non-GAAP Data Reconciliations (continued)

Return on Invested Capital (ROIC)
(in thousands)

ROIC is a financial measure we use to determine how efficiently we deploy our capital. It quantifies the return we earn on our invested capital. Management believes ROIC is also a useful metric for investors and financial analysts. We compute ROIC as outlined below. Our definition and calculation of ROIC may not be comparable to similarly titled definitions and calculations used by other companies. The tables below reconcile net operating profit after taxes (NOPAT) and total invested capital, which are non-GAAP financial measures, to the comparable GAAP financial measures:

	Year				
	2016	2015	2014	2013	2012
Net operating profit after taxes (NOPAT)					
Operating income	$ 76,650	$ 75,096	$ 101,746	$ 90,688	$ 119,787
Add: Rent expense[(1)]	67,416	62,369	57,605	50,289	48,543
Add: Interest income	94	494	415	375	310
Less: Depreciation on capitalized operating leases[(2)]	(17,185)	(16,203)	(14,265)	(13,095)	(12,072)
Less: Income taxes[(3)]	(41,933)	(40,384)	(48,900)	(43,827)	(54,358)
NOPAT	$ 85,042	$ 81,372	$ 96,601	$ 84,430	$ 102,210
Average invested capital					
Total equity	$160,320	$222,339	$ 256,907	$225,220	$ 193,697
Less: Cash greater than target[(4)]	—	—	(37,319)	(29,622)	(62,627)
Add: Long-term debt[(5)]	—	—	—	2	112
Add: Capitalized operating lease obligations[(6)]	539,328	498,952	460,840	402,312	388,344
Total invested capital at end of period	$699,648	$721,291	$ 680,428	$597,912	$ 519,526
Average invested capital[(7)]	$699,576	$726,756	$ 639,118	$560,133	$ 475,159
Return on invested capital (ROIC)[(8)]	12.2%	11.2%	15.1%	15.1%	21.5%

[(1)] Rent expense is added back to operating income to show the impact of owning versus leasing the related assets.

[(2)] Depreciation is based on the average of the last five fiscal quarters' ending capitalized operating lease obligations (see note 6) for the respective reporting periods with an assumed thirty-year useful life. This is subtracted from operating income to illustrate the impact of owning versus leasing the related assets.

[(3)] Reflects annual effective income tax rates, before discrete adjustments, of 33.0%, 33.2%, 33.6%, 34.2% and 34.7% for 2016, 2015, 2014, 2013 and 2012, respectively.

[(4)] Cash greater than target is defined as cash, cash equivalents and marketable debt securities less customer prepayments in excess of $100 million.

[(5)] Long-term debt includes capital lease obligations, if applicable.

[(6)] A multiple of eight times annual rent expense is used as an estimate for capitalizing our operating lease obligations. The methodology utilized aligns with the methodology of a nationally recognized credit rating agency.

[(7)] Average invested capital represents the average of the last five fiscal quarters' ending invested capital balances.

[(8)] ROIC equals NOPAT divided by average invested capital.

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

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The discussion in this Annual 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 our historical experience and our present expectations or projections. These risks and uncertainties include, among others:

- *Current and future general and industry economic trends and consumer confidence;*
- *The effectiveness of our marketing messages;*
- *The efficiency of our advertising and promotional efforts;*
- *Our ability to execute our Company-Controlled distribution strategy;*
- *Our ability to achieve and maintain acceptable levels of product and service quality, and acceptable product return and warranty claims rates;*
- *Our ability to continue to improve and expand our product line, and consumer acceptance of our products, product quality, innovation and brand image;*
- *Industry competition, the emergence of additional competitive products and the adequacy of our intellectual property rights to protect our products and brand from competitive or infringing activities;*
- *Availability of attractive and cost-effective consumer credit options, including the impact of recent changes in federal law that restricts various forms of consumer credit promotional offerings;*
- *Our "just-in-time" manufacturing processes with minimal levels of inventory, which may leave us vulnerable to shortages in supply;*
- *Our dependence on significant suppliers and our ability to maintain relationships with key suppliers, including several sole-source suppliers;*
- *Rising commodity costs and other inflationary pressures;*
- *Risks inherent in global sourcing activities;*
- *Risks of disruption in the operation of either of our two main manufacturing facilities;*
- *Increasing government regulation;*
- *Pending or unforeseen litigation and the potential for adverse publicity associated with litigation;*
- *The adequacy of our management information systems to meet the evolving needs of our business and existing and evolving regulatory standards applicable to data privacy and security;*
- *The costs and potential disruptions to our business related to upgrading our management information systems;*
- *The vulnerability of our management information systems to attacks by hackers or other cyber threats that could compromise the security of our systems or disrupt our business;*
- *Our ability to attract, retain and motivate qualified management, executive and other key employees, including qualified retail sales professionals and managers; and*
- *Uncertainties arising from global events, such as terrorist attacks or a pandemic outbreak, or the threat of such events.*

Additional information concerning these and other risks and uncertainties is contained under the caption "Risk Factors" in this Annual Report on Form 10-K.

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

- Overview
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance-Sheet Arrangements and Contractual Obligations
- Critical Accounting Policies and Estimates
- Recent Accounting Pronouncements

Overview

Business Overview

We offer consumers high-quality, individualized sleep solutions and services, which include a complete line of Sleep Number beds, bases and bedding accessories. Our business has three significant competitive advantages: proprietary sleep innovations, ongoing customer relationships and exclusive retail distribution.

We have a vertically integrated business model and are the exclusive designer, manufacturer, marketer, retailer and servicer of a complete line of Sleep Number beds. We are the pioneer in biometric sleep tracking and adjustability. Only the Sleep Number bed offers SleepIQ technology - proprietary sensor technology that works directly with the bed's DualAir system to track each individual's sleep. SleepIQ technology communicates how you slept and what adjustments you can make to optimize your sleep and improve your daily life. Select Comfort also offers FlextFit adjustable bases, and Sleep Number pillows, sheets and other bedding products. As a specialty mattress retailer with stores across the nation, we offer consumers a unique, value-added retail experience at one of the more than 540 Sleep Number stores across the country, online at SleepNumber.com or via phone.

We are committed to delivering superior shareholder value through three primary drivers of earnings per share growth: increasing demand, leveraging our business model and deploying our capital efficiently. We are the sleep innovation leader and drive growth through effective brand marketing and a differentiated retail experience.

We generate revenue by marketing our innovations to new and existing customers, and selling products through two distribution channels. Our Company-Controlled channel, which includes Retail, Online and Phone, sells directly to consumers. Our Wholesale/Other channel sells to and through selected retail and wholesale customers in the United States and the QVC shopping channel.

We are also the only vertically integrated manufacturer/retailer in the U.S. We have two manufacturing plants that distribute Sleep Number products. We also offer mattress home delivery and installation, and maintain an in-house customer service department. This integration enables operational synergies and efficiencies, and a strong working capital position. Vertical integration allows us to build a long-term loyal customer relationship as we service the consumer through the full purchase and ownership cycle. This relationship with our customer creates a productive cycle of repeat and referral business.

Mission and Vision

Our mission is to improve lives by individualizing sleep experiences.

Our vision is to become one of the world's most beloved brands by delivering an unparalleled sleep experience. We plan to achieve this by offering benefit-driven, innovative sleep solutions to our customers through an unmatched retail experience and a carefree ownership experience.

Results of Operations

Fiscal 2016 Summary

Financial highlights for fiscal 2016 were as follows:

- In the fourth of quarter 2015, we replaced our nearly 20-year-old legacy computer systems with a new vertically integrated Enterprise Resource Planning (ERP) system. We completed our ERP implementation by the end of the first quarter of 2016. Implementation issues negatively affected fourth-quarter 2015 net sales and profits, and to a lesser degree, first-quarter and second-quarter 2016 net sales and profits. The new operating platform enables operational efficiencies, improved customer convenience and supports the growth of our business.

- Net sales for 2016 increased 8% to $1.31 billion, compared with $1.21 billion in the prior year. Company-Controlled comparable sales increased 1% and sales from 52 net new stores opened in the past 12 months added 7 percentage points (ppt.) of growth in 2016.

- On a trailing twelve-month basis, sales per store (for stores open at least one year) of $2.4 million were consistent with the prior-year comparable period.

- Operating income for 2016 increased 2% to $77 million, or 5.8% of net sales, compared with $75 million, or 6.2% of net sales, for the same period one year ago. The increase in operating income was attributable to: (i) the 8% increase in net sales and a 0.8

ppt. improvement in our gross profit rate; partially offset by (ii) $12 million of additional research and development expenses to support the advancement of our product innovation pipeline, including expenses related to SleepIQ LABS' operations (acquired on September 15, 2015); (iii) an increase in expenses associated with operating 52 net new stores; and (iv) an increase in general and administrative expenses to support the growth of the business, including depreciation on our new ERP system that was launched in the fourth-quarter of 2015.

- Net income increased 2% to $51.4 million, or $1.10 per diluted share, compared with net income of $50.5 million, or $0.97 per diluted share in 2015.
- We achieved a return on invested capital (ROIC) of 12.2% in 2016.
- Cash provided by operating activities in 2016 totaled $152 million, compared with $108 million for the prior year. With the completion of our ERP implementation, investing activities for 2016 decreased to $58 million of property and equipment purchases, compared with $86 million in 2015.
- At December 31, 2016, cash, cash equivalents and marketable debt securities totaled $12 million compared with $36 million at January 2, 2016, and we had no borrowings under our $150 million revolving credit facility.
- In 2016, we repurchased 5.9 million shares of our common stock under our Board-approved share repurchase program at a cost of $125 million ($21.02 per share). Effective as of July 3, 2016, our Board approved an increase in our total remaining share repurchase authorization to $300 million. As of December 31, 2016, the remaining authorization under our Board-approved share repurchase program was $245 million.

The following table sets forth our 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.

	2016		2015		2014	
	$	**% of Net Sales**	**$**	**% of Net Sales**	**$**	**% of Net Sales**
Net sales	$ 1,311.3	100.0%	$ 1,213.7	100.0%	$ 1,156.8	100.0%
Cost of sales	501.1	38.2	472.9	39.0	449.9	38.9
Gross profit	810.2	61.8	740.8	61.0	706.9	61.1
Operating expenses:						
Sales and marketing	595.8	45.4	550.5	45.4	512.0	44.3
General and administrative	109.7	8.4	99.2	8.2	84.9	7.3
Research and development	28.0	2.1	16.0	1.3	8.2	0.7
Total operating expenses	733.5	55.9	665.7	54.8	605.1	52.3
Operating income	76.7	5.8	75.1	6.2	101.7	8.8
Other (expense) income, net	(0.7)	(0.1)	0.3	0.0	0.4	0.0
Income before income taxes	75.9	5.8	75.4	6.2	102.1	8.8
Income tax expense	24.5	1.9	24.9	2.1	34.1	3.0
Net income	$ 51.4	3.9%	$ 50.5	4.2%	$ 68.0	5.9%
Net income per share:						
Basic	$ 1.11		$ 0.99		$ 1.27	
Diluted	$ 1.10		$ 0.97		$ 1.25	
Weighted-average number of common shares:						
Basic	46.2		51.3		53.5	
Diluted	46.9		52.1		54.2	

The percentage of our total net sales, by dollar volume, from each of our channels was as follows:

	2016	2015	2014
Company-Controlled channel	97.7%	97.6%	97.3%
Wholesale/Other channel	2.3%	2.4%	2.7%
Total	100.0%	100.0%	100.0%

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

	Net Sales Increase/(Decrease)		
	2016	2015	2014
Retail comparable-store sales[(1)]	0%	3%	12%
Online and Phone[(1)]	25%	(4%)	9%
Company-Controlled comparable sales change[(1)]	1%	3%	12%
Net opened/closed stores and 53rd week in 2014	7%	2%	10%
Total Company-Controlled channel	8%	5%	22%
Wholesale/Other channel	5%	(9%)	(13%)
Total net sales change	8%	5%	20%

(1) Stores are included in the comparable-store calculation 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. Fiscal 2014 included 53 weeks, as compared to 52 weeks in fiscal 2016 and 2015. Comparable-store sales have been adjusted to remove the estimated impact of the additional week for fiscal 2014.

Other sales metrics were as follows:

	2016	2015	2014[(3)]
Average sales per store[(1)] ($ in thousands)	$ 2,364	$ 2,377	$ 2,327
Average sales per square foot[(1)]	$ 937	$ 980	$ 1,025
Stores > $1 million in net sales[(1)]	98%	99%	98%
Stores > $2 million in net sales[(1)]	61%	62%	59%
Average revenue per mattress unit – Company-Controlled channel[(2)]	$ 4,046	$ 4,028	$ 3,671

(1) Trailing twelve months for stores included in our comparable store sales calculation.
(2) Represents Company-Controlled channel total net sales divided by Company-Controlled channel mattress units.
(3) Fiscal 2014 included 53 weeks, as compared to 52 weeks in fiscal 2016 and 2015. Company-Controlled comparable sales metrics have been adjusted to remove the estimated impact of the additional week on those metrics.

The number of retail stores operating during the last three years was as follows:

	2016	2015	2014
Beginning of period	488	463	440
Opened	72	38	57
Closed	(20)	(13)	(34)
End of period	540	488	463

Comparison of 2016 and 2015

Enterprise Resource Planning (ERP) system implementation

In the fourth of quarter 2015, we replaced our nearly 20-year-old legacy computer systems with a new vertically integrated Enterprise Resource Planning (ERP) system. We completed our ERP implementation by the end of the first quarter of 2016. Implementation issues negatively affected fourth-quarter 2015 net sales and profits, and to a lesser degree, first-quarter and second-quarter 2016 net sales and profits. The new operating platform enables operational efficiencies, improved customer convenience and supports the growth of our business.

Net sales

Net sales in 2016 increased 8% to $1.31 billion, compared with $1.21 billion for the same period one year ago. The sales increase was driven by a 1% comparable sales increase in our Company-Controlled channel, 7 percentage points (ppt.) of growth from sales generated by 52 net new retail stores opened in the past 12 months and an increase in Wholesale/Other channel sales.

The $98 million net sales increase compared with the same period one year ago was primarily comprised of an $83 million increase resulting from net store openings and a $14 million sales increase from Company-Controlled comparable sales. Company-Controlled mattress units increased 8% compared to the prior-year period. Average revenue per mattress unit in our Company-Controlled channel was consistent with the prior year.

Gross profit

Gross profit of $810 million increased by $69 million, or 9%, compared with the same period one year ago. The gross profit rate increased to 61.8% of net sales for 2016, compared with 61.0% for the prior-year period. The 0.8 ppt. increase in the gross profit rate was primarily due to material cost reductions, operating efficiencies, and lower sales return and exchange costs. In addition, our gross profit rate can fluctuate from year-to-year due to a variety of other factors, including warranty expenses, product mix changes and performance-based incentive compensation.

Sales and marketing expenses

Sales and marketing expenses in 2016 increased 8% to $596 million, compared with $550 million last year. The marketing expense rate of 45.4% of net sales was consistent with the same period one year ago due to: (i) leveraging our media spending, which increased by 5% compared with the prior year, while net sales increased by 8%; partially offset by (ii) higher customer service costs; and (iii) an increase in customer financing expenses, as a larger percentage of our customers took advantage of promotional financing offers.

General and administrative expenses

General and administrative (G&A) expenses increased $10.5 million to $110 million in 2016, compared with $99 million in the prior year and increased to 8.4% of net sales, compared with 8.2% of net sales one year ago. The $10.5 million increase in G&A expenses consisted of the following major components: (i) a $10.4 million increase in employee compensation, including headcount increases to support business growth initiatives, and salary and wage rate increases that were in line with inflation; (ii) $6.5 million of additional depreciation expense resulting from the increase in capital expenditures to support the growth of the business, including our new ERP system that was launched in the fourth quarter of 2015; (iii) a $3.5 million gain (net of acquisition-related expenses) in 2015 related to our previously held minority equity investment in BAM Labs, Inc.; and (iv) a $1.5 million increase in miscellaneous other expenses. These increases were partially offset by $11.6 million of data conversion and training expenses incurred in 2015 to support the launch of our ERP system. The G&A expense rate increased by 0.2 ppt. in 2016 compared with the same period one year ago due to the increase in expenses discussed above, partially offset by the leveraging impact of the 8% net sales increase.

Research and development expenses

Research and development expenses for the year ended December 31, 2016 were $28 million, or 2.1% of net sales, compared with $16 million, or 1.3% of net sales, for the same period one year ago. The $12 million increase in R&D expenses was due to increased investments to support product innovations, including a $9.7 million increase in expenses related to SleepIQ LABS' operations (post acquisition; acquired on September 15, 2015). The $12 million increase is consistent with our long-term consumer innovation strategy.

Income tax expense

Income tax expense was $25 million for the year ended December 31, 2016, compared with $25 million for the same period one year ago. The effective tax rate for the year ended December 31, 2016 was 32.3% compared with 33.0% for the prior-year period. The effective tax rates for 2016 and 2015 include tax benefits associated with our acquisition of BAM Labs, including higher research and development tax credits.

Comparison of 2015 and 2014

Enterprise Resource Planning (ERP) system implementation

In the fourth quarter 2015, we replaced our nearly 20-year-old legacy computer systems with a new vertically-integrated Enterprise Resource Planning (ERP) system. We experienced technical and operational issues in our plants and supply chain as we ramped up the new system, which led to delivery delays and inconveniences for our customers. The lost sales and increases in cost of sales and operating expenses negatively impacted 2015 results by approximately $0.40 per diluted share ($0.43 per diluted share for the fourth quarter).

Net sales

Net sales in 2015 increased 5% to $1.21 billion, compared with $1.16 billion for the same period one year ago. The sales increase was driven by a 3% comparable sales increase in our Company-Controlled channel and sales from 25 net new retail stores opened in the past 12 months. During the first nine months of 2015, demand for our latest product innovations and more effective marketing drove traffic to our stores and contributed to a 20% year-to-date net sales increase. However, net sales decreased 33% in the fourth quarter compared to the prior year, reflecting approximately $84 million in sales disruptions from our ERP system implementation. In addition, 2015 included 52 weeks compared with 53 weeks in 2014, with the extra week benefiting 2014 net sales growth by approximately $24 million.

The $57 million net sales increase compared with the same period one year ago was comprised of the following: (i) a $52 million increase resulting from net store openings; and (ii) a $31 million sales increase from Company-Controlled comparable sales; partially offset by (iii) an approximately $24 million sales decrease as the prior year included an extra week of net sales (52-week year 2015 vs. 53-week year 2014); and (iv) a $2 million decrease in Wholesale/Other channel sales. Company-Controlled mattress units decreased 4% compared to the prior-year period. Average revenue per mattress unit in our Company-Controlled channel increased by 10%.

Gross profit

Gross profit of $741 million increased by $34 million, or 5%, compared with the same period one year ago. The gross profit rate decreased to 61.0% of net sales for 2015, compared with 61.1% for the prior-year period. The 0.1 percentage points (ppt.) decrease in the gross profit rate was primarily due to: (i) appeasements, labor inefficiencies, material costs and excess freight from actions taken to manage our fourth-quarter 2015 ERP issues; partially offset by (ii) favorable product mix changes resulting from advancements in our selling process and product innovations over the last 12 months. In addition, our gross profit rate can fluctuate from year-to-year due to a variety of other factors, including return and exchange costs, raw materials price fluctuations, warranty expenses and performance-based incentive compensation.

Sales and marketing expenses

Sales and marketing expenses in 2015 increased 8% to $550 million, or 45.4% of net sales, compared with $512 million, or 44.3% of net sales, for the same period one year ago. The 1.1 ppt. increase in the sales and marketing expense rate in the current period was mainly due to the deleveraging impact resulting from the approximately $84 million in sales disruptions associated with our fourth-quarter 2015 ERP system implementation.

General and administrative expenses

General and administrative (G&A) expenses increased $14 million to $99 million in 2015, compared with $85 million in the prior year, and increased to 8.2% of net sales, compared with 7.3% of net sales one year ago. G&A expenses for 2015 included 52 weeks of expenses compared with 53 weeks in 2014. The $14 million increase in G&A expenses consisted of the following major components: (i) $11.6 million of ERP launch costs in 2015, including data conversion and training expenses; (ii) $4.5 million of additional depreciation expense resulting from the increase in capital expenditures to support the growth of the business, including our new digital website that was launched in the second quarter of 2014 and our new ERP system that was launched in the fourth quarter of

2015; (iii) $4.1 million of higher professional fees, including additional costs associated with proxy preparation, filing and consulting services; and (iv) a $2.2 million increase in miscellaneous other expenses. These increases were partially offset by: (i) a $4.9 million decrease in employee compensation, including a year-over-year reduction in company-wide performance-based incentive compensation; and (ii) a $3.5 million gain (net of acquisition-related expenses) related to our previously held minority equity investment in BAM Labs, Inc. The G&A expense rate increased by 0.9 ppt. in the current period compared with the same period one year ago due to the increase in expenses discussed above, partially offset by the leveraging impact of the 5% net sales increase.

Research and development expenses

Research and development expenses for the year ended January 2, 2016 were $16 million, or 1.3% of net sales, compared with $8 million, or 0.7% of net sales, for the same period one year ago. The $8 million increase in R&D expenses was due to increased investments to support product innovations, including $3.3 million of expenses related to SleepIQ LABS' operations (post acquisition; acquired on September 15, 2015). The $8 million increase is consistent with our long-term consumer innovation strategy.

Income tax expense

Income tax expense was $25 million for the year ended January 2, 2016, compared with $34 million for the same period one year ago. The effective tax rate for the year ended January 2, 2016 was 33.0% compared with 33.4% for the prior-year period. The decrease in the effective tax rate primarily resulted from tax planning benefits associated with the BAM Labs, Inc. acquisition gain, partially offset by a reduction in our manufacturing deduction driven by increased year-over-year bonus tax depreciation.

Liquidity and Capital Resources

Managing our liquidity and capital resources is an important part of our commitment to deliver superior shareholder value. Our business model, which can operate with minimal working capital, does not require additional capital from external sources to fund operations or organic growth. Our primary sources of liquidity are cash flows provided by operating activities and cash available under our $150 million revolving credit facility. The cash generated from ongoing operations, and cash available under our revolving credit facility are expected to be adequate to maintain operations and fund anticipated expansion and strategic initiatives for the foreseeable future.

As of December 31, 2016, cash, cash equivalents and marketable debt securities totaled $12 million compared with $36 million as of January 2, 2016. The $25 million decrease was primarily due to $152 million of cash provided by operating activities, which was more than offset by $58 million of cash used to purchase property and equipment and $127 million of cash used to repurchase our common stock ($125 million under our Board-approved share repurchase program and $1.7 million in connection with the vesting of employee restricted stock grants).

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

	2016	2015
Total cash provided by (used in):		
Operating activities	$ 151.6	$ 107.9
Investing activities	(42.7)	(44.3)
Financing activities	(118.4)	(94.7)
Net decrease in cash and cash equivalents	$ (9.4)	$ (31.0)

Cash provided by operating activities for the fiscal year ended December 31, 2016 was $152 million compared with $108 million for the fiscal year ended January 2, 2016. Significant components of the $44 million year-over-year increase in cash from operating activities included: (i) a $39 million fluctuation in income taxes based on a $15 million income taxes receivable at the end of 2015 compared with income tax liabilities at the end of 2016 and 2014; (ii) a $20 million fluctuation in accrued compensation and benefits which primarily resulted from year-over-year changes in company-wide performance-based incentive compensation that was earned in 2014 and paid in the first quarter of 2015, compared with no company-wide incentive compensation accrued at the end of 2015 and paid in 2016; and (iii) the ERP implementation issues we experienced in our plants and supply chain during the fourth quarter of 2015 that resulted in higher inventory levels, increased accounts receivables, increased accounts payables and higher customer prepayments at the end of 2015.

Net cash used in investing activities was $43 million for the fiscal year ended December 31, 2016, compared with $44 million for the same period one year ago. With the completion of our ERP implementation, investing activities for the current-year period decreased to $58 million of property and equipment purchases, compared with $86 million for the same period last year. We decreased our net investments in marketable debt securities by $15 million during the fiscal year ended December 31, 2016, compared with a net decrease of $98 million during the comparable period one year ago. In September 2015, we completed the acquisition of BAM Labs, Inc. (now operating as SleepIQ LABS). We previously held a $6.0 million minority equity investment in BAM Labs, Inc. based on the cost method. In connection with the acquisition, our equity investment was remeasured to a fair value of $12.9 million and we acquired the remaining capital stock in BAM Labs, Inc. for $57.1 million for a total enterprise value of $70.0 million. See Note 2, *Acquisition of BAM Labs, Inc.,* and Note 4, *Investments,* of the Notes to Consolidated Financial Statements for additional details.

Net cash used in financing activities was $118 million for the fiscal year ended December 31, 2016, compared with net cash used in financing activities of $95 million for the same period one year ago. During the fiscal year ended December 31, 2016, we repurchased $127 million of our common stock ($125 million under our Board-approved share repurchase program and $1.7 million in connection with the vesting of employee restricted stock grants) compared with $100 million during the same period one year ago. Changes in book overdrafts are included in the net change in short-term borrowings. Financing activities for both periods reflect the cash proceeds from the exercise of employee stock options along with the excess tax benefits related to stock-based compensation.

Under our Board-approved share repurchase program, we repurchased 5.9 million shares at a cost of $125 million ($21.02 per share) during the fiscal year ended December 31, 2016. During 2015, we repurchased 3.6 million shares at a cost of $98 million ($27.46 per share). As of December 31, 2016, the remaining authorization under our Board-approved share repurchase program was $245 million. There is no expiration date governing the period over which we can repurchase shares.

Our revolving credit facility, as amended, has a net aggregate availability of $150 million. The credit facility is for general corporate purposes. The credit facility contains an accordion feature that allows us to increase the amount of the available credit from $150 million up to $200 million, subject to lenders' approval. The credit facility matures in February 2021.

The credit agreement provides the lenders with a collateral security interest in substantially all of our assets and those of our subsidiaries and requires us to comply with, among other things, a maximum leverage ratio and a minimum interest coverage ratio. Under the terms of the credit agreement we pay a variable rate of interest and a commitment fee based on our leverage ratio. As of December 31, 2016, we had no outstanding borrowings or letters of credit and we were in compliance with all financial covenants.

We have an agreement with Synchrony Bank to offer qualified customers revolving credit arrangements to finance purchases from us (Synchrony Agreement). The Synchrony Agreement contains certain financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio. As of December 31, 2016, we were in compliance with all financial covenants.

Under the terms of the Synchrony Agreement, Synchrony Bank sets the minimum acceptable credit ratings, the interest rates, fees and all other terms and conditions of the customer accounts, including collection policies and procedures, and is the owner of the accounts.

Off-Balance-Sheet Arrangements and Contractual Obligations

As of December 31, 2016, we were not involved in any unconsolidated special purpose entity transactions. Other than our operating leases, we do not have any off-balance-sheet financing. There were no outstanding letters of credit at December 31, 2016. A summary of our operating lease obligations is included in the "Contractual Obligations" section (as follows). Additional information regarding our operating leases is available in Item 2, *Properties*, and Note 8, *Leases*, of the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

Contractual Obligations

The following table presents information regarding our contractual obligations (in thousands):

	Payments Due by Period[1]				
	Total	**< 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**> 5 Years**
Operating leases[2]	$ 392,397	$ 66,493	$ 108,286	$ 80,379	$ 137,239
Purchase commitments	5,500	5,500	—	—	—
Other	—	—	—	—	—
Total	$ 397,897	$ 71,993	$ 108,286	$ 80,379	$ 137,239

(1) Our unrecognized tax benefits, including interest and penalties, of $3 million have not been included in the Contractual Obligations table as we are not able to determine a reasonable estimate of timing of the cash settlement with the respective taxing authorities.

(2) These amounts include the payments related to 33 lease commitments for future retail store locations and a lease commitment for our corporate facilities. These lease commitments provide for minimum rentals over the next five to 15 years, which if consummated based on current cost estimates, would approximate $96 million over the initial lease term.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). In connection with the preparation of our financial statements, we are required to make estimates and assumptions about future events, and apply judgments that affect the reported amounts of assets, liabilities, sales, expenses and the related disclosure. Predicting future events is inherently an imprecise activity and as such requires the use of judgment. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 1, *Business and Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K. Management believes the accounting policies discussed below are the most critical because they require management's most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. Management has reviewed these critical accounting policies and estimates, and related disclosures with the Audit Committee of our Board.

Our critical accounting policies and estimates relate to stock-based compensation, goodwill and indefinite-lived intangible assets, warranty liabilities and revenue recognition.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Stock-Based Compensation		
We have stock-based compensation plans, which includes non-qualified stock options and stock awards. See Note 1, *Business and Summary of Significant Accounting Policies*, and Note 10, *Shareholders' Equity*, to the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K, for a complete discussion of our stock-based compensation programs.	Option-pricing models and generally accepted valuation techniques require management to make assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the volatility of our stock price, future employee forfeiture rates and future employee stock option exercise behaviors. Changes in these assumptions can materially affect the fair value estimates or future earnings adjustments. Performance-based stock awards require management to make assumptions regarding the likelihood of achieving performance targets.	We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine stock-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in stock-based compensation expense that could be material. In addition, if actual results are not consistent with the assumptions used, the stock-based compensation expense reported in our financial statements may not be representative of the actual economic cost of the stock-based compensation. Finally, if the actual forfeiture rates, or the actual achievement of performance targets, are not consistent with the assumptions used, we could experience future earnings adjustments. A 10% change in our stock-based compensation expense for the year ended December 31, 2016, would have affected net income by approximately $801,000 in 2016.
Goodwill and Indefinite-Lived Intangible Assets		
Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. Our indefinite-lived intangible assets include trade names/ trademarks. See Note 1, *Business and Summary of Significant Accounting Policies* and Note 7, *Goodwill and Intangible Assets, Net*, to the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K, for a complete discussion of our goodwill and indefinite-lived intangible assets.	The determination of fair value involves uncertainties because it requires management to make assumptions and to apply judgment to estimate industry and economic factors and the profitability of future business strategies. Management's assumptions also include projected revenues, operating profit levels and discount rates, as well as consideration of any other factors that may indicate potential impairment.	In the fourth quarter of fiscal 2016, management completed its annual goodwill and other indefinite-lived intangible asset impairment tests and determined there was no impairment. We believe our assumptions and judgments used in estimating cash flows and determining fair value were reasonable. However, unexpected changes to such assumptions and judgments could affect our impairment analyses and future results of operations, including an impairment charge that could be material.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Warranty Liabilities		
We provide a limited warranty on most of the products we sell. See Note 1, *Business and Summary of Significant Accounting Policies*, to the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K, for a complete discussion of our warranty program and liabilities.	The majority of our warranty claims are incurred within the first year. However, our warranty liability contains uncertainties because our warranty obligations cover an extended period of time. A revision of estimated claim rates or the projected cost of materials and freight associated with sending replacement parts to customers could have a material adverse effect on future results of operations.	We have not made any material changes in our warranty liability assessment methodology during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our warranty liability. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material. A 10% change in our warranty liability at December 31, 2016, would have affected net income by approximately $578,000 in 2016.
Revenue Recognition		
Certain accounting estimates relating to revenue recognition contain uncertainty because they require management to make assumptions and to apply judgment regarding the effects of future events. See Note 1, *Business and Summary of Significant Accounting Policies*, to the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K, for a complete discussion of our revenue recognition policies.	Our estimates of sales returns contain uncertainties as actual sales return rates may vary from expected rates, resulting in adjustments to net sales in future periods. These adjustments could have an adverse effect on future results of operations.	We have not made any material changes in the accounting methodology used to establish our sales returns allowance during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our sales returns allowance. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to additional losses or gains in future periods. A 10% change in our sales returns allowance at December 31, 2016 would have affected net income by approximately $1.0 million in 2016.

Recent Accounting Pronouncements

See “Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 1 – Business and Summary of Significant Accounting Policies - New Accounting Pronouncements” for recent accounting pronouncements that may affect our financial reporting.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Changes in the overall level of interest rates affect interest income generated from our cash and cash equivalents. If overall interest rates were one percentage point lower than current rates, our annual interest income would not change by a significant amount based on our cash and cash equivalents as of December 31, 2016 and the current low interest-rate environment. We do not manage our investment interest-rate volatility risk through the use of derivative instruments.

As of December 31, 2016, we had no borrowings under our revolving credit facility.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Select Comfort Corporation
Minneapolis, Minnesota

We have audited the internal control over financial reporting of Select Comfort Corporation and subsidiaries (the "Company") as of December 31, 2016, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule listed in the Index at Item 15 as of and for the year ended December 31, 2016, of the Company and our report dated February 24, 2017 expressed an unqualified opinion on those consolidated financial statements and the financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
February 24, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Select Comfort Corporation
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of Select Comfort Corporation and subsidiaries (the "Company") as of December 31, 2016 and January 2, 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and January 2, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
February 24, 2017

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2016 and January 2, 2016
(in thousands, except per share amounts)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 11,609	$ 20,994
Marketable debt securities – current	—	6,567
Accounts receivable, net of allowance for doubtful accounts of $884 and $1,039, respectively	19,705	29,002
Inventories	75,026	86,600
Income taxes receivable	—	15,284
Prepaid expenses	8,705	10,207
Other current assets	23,282	13,737
Total current assets	138,327	182,391
Non-current assets:		
Marketable debt securities – non-current	—	8,553
Property and equipment, net	208,367	204,376
Goodwill and intangible assets, net	80,817	83,344
Deferred income taxes	4,667	3,036
Other non-current assets	24,988	19,197
Total assets	$ 457,166	$ 500,897
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 105,375	$ 103,941
Customer prepayments	26,207	51,473
Accrued sales returns	15,222	20,562
Compensation and benefits	19,455	15,670
Taxes and withholding	23,430	9,856
Other current liabilities	35,628	23,447
Total current liabilities	225,317	224,949
Non-current liabilities:		
Other non-current liabilities	71,529	53,609
Total liabilities	296,846	278,558
Shareholders' equity:		
Undesignated preferred stock; 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value; 142,500 shares authorized, 43,569 and 49,402 shares issued and outstanding, respectively	436	494
Additional paid-in capital	—	—
Retained earnings	159,884	221,859
Accumulated other comprehensive loss	—	(14)
Total shareholders' equity	160,320	222,339
Total liabilities and shareholders' equity	$ 457,166	$ 500,897

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Operations
Years ended December 31, 2016, January 2, 2016 and January 3, 2015
(in thousands, except per share amounts)

	2016	2015	2014
Net sales	$ 1,311,291	$ 1,213,699	$ 1,156,757
Cost of sales	501,131	472,948	449,907
Gross profit	810,160	740,751	706,850
Operating expenses:			
Sales and marketing	595,845	550,475	512,007
General and administrative	109,674	99,209	84,864
Research and development	27,991	15,971	8,233
Total operating expenses	733,510	665,655	605,104
Operating income	76,650	75,096	101,746
Other (expense) income, net	(717)	334	362
Income before income taxes	75,933	75,430	102,108
Income tax expense	24,516	24,911	34,134
Net income	$ 51,417	$ 50,519	$ 67,974
Basic net income per share:			
Net income per share – basic	$ 1.11	$ 0.99	$ 1.27
Weighted-average shares – basic	46,154	51,252	53,452
Diluted net income per share:			
Net income per share – diluted	$ 1.10	$ 0.97	$ 1.25
Weighted-average shares – diluted	46,902	52,101	54,193

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
Years ended December 31, 2016, January 2, 2016 and January 3, 2015
(in thousands)

	2016	2015	2014
Net income	$ 51,417	$ 50,519	$ 67,974
Other comprehensive income (loss) – unrealized gain (loss) on available-for-sale marketable debt securities, net of income tax	14	20	(47)
Comprehensive income	$ 51,431	$ 50,539	$ 67,927

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity
Years ended December 31, 2016, January 2, 2016 and January 3, 2015
(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount				
Balance at December 28, 2013	54,901	$ 549	$ 5,382	$ 219,276	$ 13	$ 225,220
Net income	—	—	—	67,974	—	67,974
Other comprehensive income:						
Unrealized loss on available-for-sale marketable debt securities, net of tax	—	—	—	—	(47)	(47)
Exercise of common stock options	239	2	2,871	—	—	2,873
Tax effect from stock-based compensation	—	—	581	—	—	581
Stock-based compensation	(96)	(1)	6,799	—	—	6,798
Repurchases of common stock	(2,246)	(22)	(15,633)	(30,837)	—	(46,492)
Balance at January 3, 2015	52,798	$ 528	$ —	$ 256,413	$ (34)	$ 256,907
Net income	—	—	—	50,519	—	50,519
Other comprehensive income:						
Unrealized gain on available-for-sale marketable debt securities, net of tax	—	—	—	—	20	20
Exercise of common stock options	253	3	2,973	—	—	2,976
Tax effect from stock-based compensation	—	—	1,828	—	—	1,828
Stock-based compensation	(7)	—	10,290	—	—	10,290
Repurchases of common stock	(3,642)	(37)	(15,091)	(85,073)	—	(100,201)
Balance at January 2, 2016	49,402	$ 494	$ —	$ 221,859	$ (14)	$ 222,339
Net income	—	—	—	51,417	—	51,417
Other comprehensive income:						
Unrealized gain on available-for-sale marketable debt securities, net of tax	—	—	—	—	14	14
Exercise of common stock options	188	2	2,296	—	—	2,298
Tax effect from stock-based compensation	—	—	(1,016)	—	—	(1,016)
Stock-based compensation	11	—	11,961	—	—	11,961
Repurchases of common stock	(6,032)	(60)	(13,241)	(113,392)	—	(126,693)
Balance at December 31, 2016	43,569	$ 436	$ —	$ 159,884	$ —	$ 160,320

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2016, January 2, 2016 and January 3, 2015
(in thousands)

	2016	2015	2014
Cash flows from operating activities:			
Net income	$ 51,417	$ 50,519	$ 67,974
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	57,172	47,630	39,809
Stock-based compensation	11,961	10,290	6,798
Net loss on disposals and impairments of assets	27	190	492
Excess tax benefits from stock-based compensation	(517)	(2,182)	(1,163)
Deferred income taxes	(1,640)	11,924	(311)
Gain on sale of non-marketable equity securities	—	(6,891)	—
Changes in operating assets and liabilities, net of effect of acquisition:			
Accounts receivable	9,297	(9,259)	(4,717)
Inventories	11,574	(33,065)	(13,383)
Income taxes	25,119	(13,943)	(4,314)
Prepaid expenses and other assets	(2,195)	8,680	(9,973)
Accounts payable	(4,965)	19,130	14,340
Customer prepayments	(25,266)	22,735	13,334
Accrued compensation and benefits	2,808	(17,493)	17,735
Other taxes and withholding	2,723	135	2,584
Other accruals and liabilities	14,130	19,542	15,263
Net cash provided by operating activities	151,645	107,942	144,468
Cash flows from investing activities:			
Purchases of property and equipment	(57,852)	(85,586)	(76,594)
Proceeds from marketable debt securities	21,053	127,664	54,506
Investments in marketable debt securities	(5,968)	(29,299)	(90,349)
Proceeds from sales of property and equipment	92	72	5
Acquisition of business	—	(70,018)	—
Proceeds from (investment in) non-marketable equity securities	—	12,891	(1,500)
Increase in restricted cash	—	—	(500)
Net cash used in investing activities	(42,675)	(44,276)	(114,432)
Cash flows from financing activities:			
Repurchases of common stock	(126,693)	(100,201)	(46,492)
Net increase in short-term borrowings	5,932	1,097	6,192
Proceeds from issuance of common stock	2,298	2,976	2,873
Excess tax benefits from stock-based compensation	517	2,182	1,163
Debt issuance costs	(409)	(721)	—
Net cash used in financing activities	(118,355)	(94,667)	(36,264)
Net decrease in cash and cash equivalents	(9,385)	(31,001)	(6,228)
Cash and cash equivalents, at beginning of period	20,994	51,995	58,223
Cash and cash equivalents, at end of period	$ 11,609	$ 20,994	$ 51,995
Supplemental Disclosure of Cash Flow Information			
Income taxes (received) paid	$ (653)	$ 26,681	$ 38,474
Interest paid	$ 608	$ 96	$ 49
Purchases of property and equipment included in accounts payable	$ 5,517	$ 5,051	$ 5,802

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Business and Summary of Significant Accounting Policies

Business & Basis of Presentation

Select Comfort Corporation and our 100%-owned subsidiaries (Select Comfort or the Company) have a vertically integrated business model and are the exclusive designer, manufacturer, marketer, retailer and servicer of a complete line of Sleep Number beds. We are the pioneer in biometric sleep tracking and adjustability. Only the Sleep Number bed offers SleepIQ technology - proprietary sensor technology that works directly with the bed's DualAir system to track each individual's sleep. SleepIQ technology communicates how you slept and what adjustments you can make to optimize your sleep and improve your daily life. Select Comfort also offers FlextFit adjustable bases, and Sleep Number pillows, sheets and other bedding products.

As the only national specialty-mattress retailer, we generate revenue by selling products through two distribution channels. Our Company-Controlled channel, which includes Retail, Online and Phone, sells directly to consumers. Our Wholesale/Other channel sells to and through selected retail and wholesale customers in the United States and the QVC shopping channel. The consolidated financial statements include the accounts of Select Comfort Corporation and our subsidiaries. All significant intra-entity balances and transactions have been eliminated in consolidation.

Fiscal Year

Our fiscal year ends on the Saturday closest to December 31. Fiscal years and their respective fiscal year ends were as follows: fiscal 2016 ended December 31, 2016; fiscal 2015 ended January 2, 2016; and fiscal 2014 ended January 3, 2015. Fiscal years 2016 and 2015 each had 52 weeks and fiscal year 2014 had 53 weeks.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires us 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 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 financial statements in future periods. Our critical accounting policies consist of stock-based compensation, goodwill and indefinite-lived intangible assets, warranty liabilities and revenue recognition.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. The carrying value of these investments approximates fair value due to their short-term maturity. Our banking arrangements allow us to fund outstanding checks when presented to the financial institution for payment, resulting in book overdrafts. Book overdrafts are included in accounts payable in our consolidated balance sheets and in net increase in short-term borrowings in the financing activities section of our consolidated statements of cash flows. Book overdrafts totaled $26.6 million and $20.7 million at December 31, 2016, and January 2, 2016, respectively.

Marketable Debt Securities

Our investment portfolio was comprised of U.S. agency securities, corporate debt securities and municipal bonds. The value of these securities was subject to market and credit volatility during the period these investments were held. We classify marketable debt securities as available-for-sale investments and these securities were stated at their estimated fair value. Our investments with original maturities of greater than three months, but current maturities of less than one year, are recorded as marketable debt securities – current. Our investments with current maturities of more than one year are recorded as marketable debt securities – non-current. Unrealized gains and losses, net of income tax, are reported as a component of accumulated other comprehensive income (loss) in our consolidated balance sheets. Other-than-temporary declines in market value, if any, from original cost are charged to other (expense) income, net in the consolidated statements of operations in the period in which the loss occurs, and a new cost basis for the security is established. In determining whether an other-than-temporary decline in the market value has occurred, we consider the duration and extent that the fair value of the investment is below its cost. Realized gains and losses, if any, are calculated on the specific identification method and are measured and reclassified from accumulated other comprehensive income (loss) in our consolidated balance sheets to other (expense) income, net in our consolidated statements of operations.

Concentration of Credit Risk

Our investment policy's primary focus is to preserve principal and maintain adequate liquidity. Our investment policy addresses the concentration of credit risk by limiting the concentration in certain investment types. Our exposure to a concentration of credit risk consists primarily of cash and cash equivalents. We place our cash with high-credit quality issuers and financial institutions. We previously held investments in U.S. agency securities, corporate debt securities and municipal bonds. We believe no significant concentration of credit risk exists with respect to our cash and cash equivalents.

Accounts Receivable

Accounts receivable are recorded net of an allowance for expected losses and consist primarily of receivables from wholesale customers and receivables from third-party financiers for customer credit card purchases. The allowance is recognized in an amount equal to anticipated future write-offs. We estimate future write-offs based on delinquencies, aging trends, industry risk trends, our historical experience and current trends. Account balances are charged off against the allowance when we believe it is probable the receivable will not be recovered.

Inventories

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

Property and Equipment

Property and equipment, carried at cost, is depreciated using the straight-line method over the estimated useful lives of the assets. The cost and related accumulated depreciation of assets sold or retired is removed from the accounts with any resulting gain or loss included in net income in our consolidated statements of operations. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments that extend useful life are capitalized.

Leasehold improvements are depreciated over the shorter of the estimated useful lives of the assets or the contractual term of the lease, with consideration of lease renewal options if renewal appears probable.

Estimated useful lives of our property and equipment by major asset category are as follows:

Leasehold improvements	5 to 11 years
Furniture and equipment	5 to 7 years
Production machinery	3 to 7 years
Computer equipment and software	3 to 12 years

Goodwill and Intangible Assets, Net

Goodwill is the difference between the purchase price of a company and the fair market value of the acquired company's net identifiable assets. Our intangible assets include developed technologies, trade names/trademarks and customer relationships. Definite-lived intangible assets are being amortized using the straight-line method over their estimated lives, ranging from 7-10 years.

Asset Impairment Charges

Long-lived Assets and Definite-lived Intangible Assets - we review our long-lived assets and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the estimated future cash flows (undiscounted and without interest charges - plus proceeds expected from disposition, if any). If the estimated undiscounted cash flows are less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value. When we recognize an impairment loss, the carrying amount of the asset is reduced to estimated fair value based on discounted cash flows, quoted market prices or other valuation techniques. Assets to be disposed of are reported at the lower of the carrying amount of the asset or fair value less costs to sell. We review retail store assets for potential impairment based on historical cash flows, lease termination provisions and expected future retail store operating results. If we recognize an impairment loss for a depreciable long-lived asset, the adjusted carrying amount of the asset becomes its new cost basis and will be depreciated (amortized) over the remaining useful life of that asset.

Goodwill and Indefinite-lived Intangible Assets - goodwill and indefinite-lived intangible assets are not amortized, but are tested for impairment annually or when there are indicators of impairment using a fair value approach. The Financial Accounting Standards Board's (FASB) guidance allows us to perform either a quantitative assessment or a qualitative assessment before calculating the fair value of a reporting unit. We have elected to perform the quantitative assessment. The quantitative goodwill impairment test is a two-step process. The first step is a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. If this step reflects impairment, then the loss would be measured as the excess of recorded goodwill over its implied fair value. Implied fair value is the excess of fair value of the reporting unit over the fair value of all identified assets and liabilities. Fair value is determined using a market-based approach utilizing widely accepted valuation techniques, including quoted market prices and our market capitalization. Indefinite-lived intangible assets are assessed for impairment by comparing the carrying value of an asset with its fair value. If the carrying value exceeds fair value, an impairment loss is recognized in an amount equal to the excess. Based on our 2016 assessments, we determined there was no impairment.

Warranty Liabilities

We provide a limited warranty on most of the products we sell. The estimated warranty costs, which are expensed at the time of sale and included in cost of sales, are based on historical trends and warranty claim rates incurred by us and are adjusted for any current trends as appropriate. Actual warranty claim costs could differ from these estimates. We regularly assess and adjust the estimate of accrued warranty claims by updating claims rates for actual trends and projected claim costs.

We classify as non-current those estimated warranty costs expected to be paid out in greater than one year. The activity in the accrued warranty liabilities account was as follows (in thousands):

	2016	2015	2014
Balance at beginning of period	$ 10,028	$ 5,824	$ 4,153
Additions charged to costs and expenses for current-year sales	9,034	9,368	9,437
Deductions from reserves	(10,016)	(6,486)	(8,118)
Changes in liability for pre-existing warranties during the current year, including expirations	(413)	1,322	352
Balance at end of period	$ 8,633	$ 10,028	$ 5,824

Fair Value Measurements

Fair value measurements are reported in one of three levels based on the lowest level of significant input used:

- Level 1 – observable inputs such as quoted prices in active markets;
- Level 2 – inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 – unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Our Level 2 securities included U.S. Agency bonds, corporate bonds and municipal bonds whose value is determined by a third-party pricing service using inputs that are observable in the market or can be derived principally from or corroborated by observable market data such as pricing for similar securities, recently executed transactions, cash flow models with yield curves and benchmark securities. We did not hold any Level 3 securities at December 31, 2016 or January 2, 2016.

We generally estimate fair value of long-lived assets, including our retail stores, using the income approach, which we base on estimated future cash flows (discounted and with interest charges). The inputs used to determine fair value relate primarily to future assumptions regarding sales volumes, gross profit rates, retail store operating expenses and applicable probability weightings regarding future alternative uses. These inputs are categorized as Level 3 inputs under the fair value measurements guidance. The inputs used represent management's assumptions about what information market participants would use in pricing the assets and are based upon the best information available at the balance sheet date.

Dividends

We are not restricted from paying cash dividends under our credit agreement so long as we are not in default under the credit agreement and so long as the payment of such dividends would not create an event of default. However, we have not historically paid, and have no current plans to pay, cash dividends on our common stock.

Revenue Recognition

Revenue is recognized when the sales price is fixed or determinable, collectability is reasonably assured and title passes. Amounts billed to customers for delivery and setup are included in net sales. Revenue is reported net of estimated sales returns and excludes sales taxes.

We accept sales returns after a 100-night trial period. The accrued sales returns estimate is based on historical return rates and is adjusted for any current trends as appropriate. If actual returns vary from expected rates, sales in future periods are adjusted.

Our SleepIQ system is a multiple-element arrangement with deliverables that include a bed, hardware and software. We analyze our multiple-element arrangement(s) to determine whether the deliverables can be separated or whether they must be accounted for as a single unit of accounting. We determined that the SleepIQ system has two units of accounting consisting of: (i) the bed; and (ii) the hardware/software. The hardware and software are not separable as the hardware and related software are not sold separately and the software is integral to the hardware's functionality. We valued the two units of accounting based on their relative selling prices.

At December 31, 2016 and January 2, 2016, we had deferred revenue totaling $61.3 million and $33.6 million, of which $21.0 million and $7.7 million are included in other current liabilities, respectively, and $40.3 million and $25.9 million are included in other non-current liabilities, respectively, in our consolidated balance sheets. We also have related deferred costs totaling $33.2 million and $21.6 million, of which $11.6 million and $5.0 million are included in other current assets, respectively, and $21.6 million and $16.6 million are included in other non-current assets, respectively, in our consolidated balance sheets. The deferred revenue and costs are recognized over the product's estimated life of four years.

Cost of Sales, Sales and Marketing, General and Administrative (G&A) and Research & Development (R&D) Expenses

The following tables summarize the primary costs classified in each major expense category (the classification of which may vary within our industry):

Cost of Sales	Sales & Marketing
• Costs associated with purchasing, manufacturing, shipping, handling and delivering our products to our retail stores and customers; • Physical inventory losses, scrap and obsolescence; • Related occupancy and depreciation expenses; • Costs associated with returns and exchanges; and • Estimated costs to service customer warranty claims.	• Advertising and media production; • Marketing and selling materials such as brochures, videos, websites, customer mailings and in-store signage; • Payroll and benefits for sales and customer service staff; • Store occupancy costs; • Store depreciation expense; • Credit card processing fees; and • Promotional financing costs.

G&A	R&D[1]
• Payroll and benefit costs for corporate employees, including information technology, legal, human resources, finance, sales and marketing administration, investor relations and risk management; • Occupancy costs of corporate facilities; • Depreciation related to corporate assets; • Information hardware, software and maintenance; • Insurance; • Investor relations costs; and • Other overhead costs.	• Internal labor and benefits related to research and development activities; • Outside consulting services related to research and development activities; and • Testing equipment related to research and development activities.

(1) Costs incurred in connection with R&D are charged to expense as incurred.

Operating Leases

We lease our 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. Our retail store leases generally provide for an initial lease term of five to 10 years. In addition, our mall-based retail store leases may require payment of contingent rent based on net sales in excess of certain thresholds. Certain retail store leases may contain options to extend the term of the original lease.

Minimum rent expense, which excludes contingent rents, is recognized on a straight-line basis over the lease term, after consideration of rent escalations and rent holidays. We record any difference between the straight-line rent amounts and amounts payable under the leases as part of deferred rent, in other current liabilities or other non-current liabilities, as appropriate. The lease term for purposes of the calculation begins on the earlier of the lease commencement date or the date we take possession of the property. During lease renewal negotiations that extend beyond the original lease term, we estimate straight-line rent expense based on current market conditions. At December 31, 2016, and January 2, 2016, deferred rent included in other current liabilities in our consolidated balance sheets was $0.2 million and $0.4 million, respectively, and deferred rent included in other non-current liabilities in our consolidated balance sheets was $9.6 million and $7.5 million, respectively. Contingent rent expense is recorded when it is probable the expense has been incurred and the amount is reasonably estimable. Future payments for real estate taxes and certain building operating expenses for which we are obligated are not included in minimum lease payments.

Leasehold improvements that are funded by landlord incentives or allowances under an operating lease are recorded as deferred lease incentives, in other current liabilities or other non-current liabilities, as appropriate and amortized as reductions to rent expense over the lease term. At December 31, 2016, and January 2, 2016, deferred lease incentives included in other current liabilities in our consolidated balance sheets were $2.9 million and $2.8 million, respectively, and deferred lease incentives included in other non-current liabilities in our consolidated balance sheets were $8.9 million and $7.9 million, respectively.

Pre-Opening Costs

Costs associated with the start-up and promotion of new retail store openings are expensed as incurred.

Advertising Costs

We incur advertising costs associated with print, digital and broadcast advertisements. Advertising costs are charged to expense when the ad first runs. Advertising expense was $189.8 million, $180.8 million and $158.5 million in 2016, 2015 and 2014, respectively. Advertising costs deferred and included in prepaid expenses in our consolidated balance sheets were $1.2 million and $4.5 million as of December 31, 2016, and January 2, 2016, respectively.

Insurance

We are self-insured for certain losses related to health and workers' compensation claims, although we obtain third-party insurance coverage to limit exposure to these claims. We estimate our self-insured liabilities using a number of factors including historical claims experience and analysis of incurred but not reported claims. Our self-insurance liability was $6.2 million and $7.7 million at December 31, 2016, and January 2, 2016, respectively. At December 31, 2016, and January 2, 2016, $3.5 million and $4.0 million, respectively, were included in compensation and benefits and $2.7 million and $3.7 million, respectively, were included in other non-current liabilities in our consolidated balance sheets. At December 31, 2016 and January 2, 2016, we had a restricted deposit of $3.2 million with our insurer that serves as collateral for our workers' compensation insurance obligations and was included in other current assets in our consolidated balance sheets.

Software Capitalization

For software developed or obtained for internal use, we capitalize direct external costs associated with developing or obtaining internal-use software. In addition, we capitalize certain payroll and payroll-related costs for employees who are directly involved with the development of such applications. Capitalized costs related to internal-use software under development are treated as construction-in-progress until the program, feature or functionality is ready for its intended use, at which time depreciation commences. We expense any data conversion or training costs as incurred.

Stock-Based Compensation

We compensate officers, directors and key employees with stock-based compensation under two stock plans approved by our shareholders in 2004 and 2010 and administered under the supervision of our Board of Directors (Board). At December 31, 2016, a total of 3.9 million shares were available for future grant under the 2010 stock plan. These plans include non-qualified stock options and stock awards.

We record stock-based compensation expense based on the award's fair value at the grant date and the awards that are expected to vest. We recognize stock-based compensation expense over the period during which an employee is required to provide services in exchange for the award. We reduce compensation expense by estimated forfeitures. Forfeitures are estimated using historical experience and projected employee turnover. We include, as part of cash flows from financing activities, the benefit of tax deductions in excess of recognized stock-based compensation expense. See "*New Accounting Pronouncements*" below regarding revised guidance for stock-based compensation in 2017.

Stock Options - stock option awards are granted at exercise prices equal to the closing price of our stock on the grant date. Generally, options vest proportionally over 3 years and expire after 10 years. Compensation expense is recognized ratably over the vesting period.

We determine the fair value of stock options granted and the resulting compensation expense at the date-of-grant using the Black-Scholes-Merton option-pricing model and a single option award approach. Descriptions of significant assumptions used to estimate the expected volatility, risk-free interest rate and expected term are as follows:

> *Expected Volatility* – expected volatility was determined based on implied volatility of our traded options and historical volatility of our stock price.
>
> *Risk-Free Interest Rate* – the risk-free interest rate was based on the implied yield available on U.S. Treasury zero-coupon issues at the date of grant with a term equal to the expected term.

Expected Term – expected term represents the period that our stock-based awards are expected to be outstanding and was determined based on historical experience and anticipated future exercise patterns, giving consideration to the contractual terms of unexercised stock-based awards.

Stock Awards - we issue stock awards to certain employees in conjunction with our stock-based compensation plan. The stock awards generally vest over three years based on continued employment (time based). Compensation expense related to stock awards, except for stock awards with a market condition, is determined on the grant date based on the publicly quoted closing price of our common stock and is charged to earnings on a straight-line basis over the vesting period. Stock awards with a market condition are valued using a Monte Carlo simulation model. The significant assumptions used to estimate the expected volatility and risk-free interest rate are similar to those described above in *Stock Options.*

Certain time-based stock awards have either a performance condition (performance-based) or a market condition (market-based).

Performance-based Stock Awards – the final number of shares earned and the related compensation expense is adjusted up or down to the extent the performance target is met as of the last day of the performance period. The actual number of shares that will ultimately be awarded range from 0% - 200% of the targeted amount for the 2016, 2015 and 2014 awards. We evaluate the likelihood of meeting the performance targets at each reporting period and adjust compensation expense, on a cumulative basis, based on the expected achievement of each of the performance targets. For performance-based stock awards granted in 2016, 2015 and 2014, the performance targets are growth in net sales and in operating profit, and the performance periods are fiscal 2016 through 2018, fiscal 2015 through 2017, and 2014 through 2016, respectively.

Market-based Stock Awards – the related compensation expense is fixed, however, the final number of shares earned is adjusted to the extent that the market condition is achieved during the performance period. The actual number of shares that will ultimately be awarded range from 0% to 100% of the target amount for 2014 awards. There were no market-based stock awards granted in 2016 or 2015. For the market-based stock awards granted in 2014, the market condition was based on increases in our stock price for a specified number of sequential days and the performance period is three years beginning on the date of grant, which was March 28, 2014. As of December 31, 2016, the market condition had been achieved.

See Note 10, *Shareholders' Equity*, for additional information on stock-based compensation.

Income Taxes

We recognize deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established for any portion of deferred tax assets that are not considered more likely than not to be realized. We evaluate all available positive and negative evidence, including our forecast of future taxable income, to assess the need for a valuation allowance on our deferred tax assets.

We record a liability for unrecognized tax benefits from uncertain tax positions taken, or expected to be taken, in our tax returns. We follow a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments, and may not accurately forecast actual outcomes.

We classify net interest and penalties on tax uncertainties as a component of income tax expense in our consolidated statements of operations.

Net Income Per Share

We calculate basic net income per share by dividing net income by the weighted-average number of common shares outstanding during the period. We calculate diluted net income per share based on the weighted-average number of common shares outstanding adjusted by the number of potentially dilutive common shares as determined by the treasury stock method. Potentially dilutive shares consist of stock options and stock awards.

Sources of Supply

We currently obtain materials and components used to produce our beds from outside sources. As a result, we are dependent upon suppliers that in some instances, are our sole source of supply. We are continuing our efforts to dual-source key components. The failure of one or more of our suppliers to provide us with materials or components on a timely basis could significantly impact our consolidated results of operations and net income per share. We believe we can obtain these raw materials and components from other sources of supply in the ordinary course of business, although an unexpected loss of supply over a short period of time may not allow us to replace these sources in the ordinary course of business.

New Accounting Pronouncements

Adopted

In November 2015, the FASB issued new guidance related to classification of deferred taxes. The new guidance requires that deferred tax liabilities and assets be classified as non-current on the balance sheet. It is effective for interim and annual periods beginning after December 15, 2016, but early adoption is permitted. We elected to early adopt this guidance as of December 31, 2016 on a retrospective basis. The new guidance did not impact our consolidated results of operations or operating cash flows. Adoption of the new standard impacted our previously reported consolidated balance sheet as follows for the period ended January 2, 2016 (in thousands):

	As Adjusted	As Reported
Current assets:		
Deferred income taxes	$ —	$ 15,535
Non-current assets:		
Deferred income taxes	$ 3,036	$ —
Non-current liabilities:		
Deferred income taxes	$ —	$ 12,499

Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued a comprehensive new revenue recognition model that requires a company to recognize revenue in a manner that depicts the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This new guidance was originally effective for fiscal years beginning after December 15, 2016 and early adoption was not permitted. In July 2015, the FASB deferred the effective date from fiscal years beginning after December 15, 2016 to fiscal years beginning after December 15, 2017 (including interim reporting periods within those fiscal years). Early adoption is permitted to the original effective date of fiscal years beginning after December 15, 2016 (including interim reporting periods within those fiscal years). Companies may use either a full retrospective or a modified retrospective approach to adopt this new guidance. We are evaluating the effect of the new standard on our consolidated financial statements and related disclosures, and have not yet selected a transition method.

In February 2016, the FASB issued new guidance on accounting for leases that generally requires most leases to be recognized on the balance sheet. This new guidance is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The provisions of this new guidance are to be applied using a modified retrospective approach, with elective reliefs, which requires application of the new guidance for all periods presented. We are evaluating the effect of the new standard on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued new guidance on the accounting for, and disclosure of, stock-based compensation which will be effective for us beginning in 2017. The new guidance is intended to simplify several aspects of the accounting for stock-based compensation arrangements, including the income tax impact, forfeitures and classification on the statement of cash flows. Under the current guidance, excess tax benefits and deficiencies have been recognized in additional paid-in capital in the consolidated balance sheets. Upon adoption of the new guidance, these excess tax benefits or deficiencies are required to be recognized as discrete adjustments to income tax expense in the consolidated statements of operations. We will adopt the new guidance on a prospective basis and these discrete adjustments could have a material impact on income tax expense and net income.

(2) Acquisition of BAM Labs, Inc.

In September 2015, we completed the acquisition of BAM Labs, Inc. (now operating as SleepIQ LABS), the leading provider of biometric sensor and sleep monitoring for data-driven health and wellness. The addition of SleepIQ LABS strengthens Sleep Number's leadership in sleep innovation, adjustability and individualization. The acquisition broadens and deepens electrical, biomedical, software and backend capabilities - API (application program interface) and bio-signal analysis. Our ownership and control of biometric data advances smart, connected products that empower our customers with the knowledge to adjust for their best sleep.

We previously held a $6.0 million minority equity investment in BAM Labs, Inc. based on the cost method (see Note 4, *Investments,* for further details). In connection with the acquisition, our equity investment was remeasured to a fair value of $12.9 million. We acquired the remaining capital stock of BAM Labs, Inc. for $57.1 million for a total enterprise value of $70.0 million. Our consolidated statement of operations included $13.0 million and $3.3 million of SleepIQ LABS research and development expenses for the years ended December 31, 2016 and January 2, 2016, respectively. The acquisition of SleepIQ LABS did not have a significant impact on our consolidated results of operations, operating cash flows or financial position for the years ended December 31, 2016 or January 2, 2016.

The following table summarizes the fair value of the net assets acquired as of the acquisition date (in thousands):

Accounts receivable	$ 105
Prepaid expenses	98
Property and equipment	91
Deferred income taxes	2,754
Goodwill	55,083
Intangible assets	13,619
Total assets acquired	71,750
Accounts payable	269
Compensation and benefits	322
Other non-current liabilities	1,141
Total liabilities acquired	1,732
Net assets acquired	$ 70,018

Intangible assets of $13.6 million consisted of developed technologies with an estimated useful life of eight years. The goodwill will not be deductible for income tax purposes.

(3) Fair Value Measurements

The following table sets forth by level within the fair value hierarchy, our financial assets at January 2, 2016, that were accounted for at fair value on a recurring basis, according to the valuation techniques we used to determine their fair value (in thousands). At December 31, 2016, we did not hold any financial assets that required a fair value measurement on a recurring basis.

	January 2, 2016			
	Level 1	Level 2	Level 3	Total
Marketable debt securities – current				
Municipal bonds	$ —	$ 4,055	$ —	$ 4,055
Corporate bonds	—	2,512	—	2,512
	—	6,567	—	6,567
Marketable debt securities – non-current				
Corporate bonds	—	5,001	—	5,001
U.S. Agency bonds	—	2,496	—	2,496
Municipal bonds	—	1,056	—	1,056
	—	8,553	—	8,553
	$ —	$ 15,120	$ —	$ 15,120

At December 31, 2016 and January 2, 2016, we had $2.3 million and $1.6 million, respectively, of debt and equity securities that fund our deferred compensation plan and are classified in other non-current assets. We also had corresponding deferred compensation plan liabilities of $2.3 million and $1.6 million at December 31, 2016 and January 2, 2016, respectively, 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 us 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.

(4) Investments

Marketable Debt Securities

The following table sets forth our investments in marketable debt securities at January 2, 2016 (in thousands). We did not hold any marketable debt securities at December 31, 2016.

	January 2, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate bonds	$ 7,532	$ —	$ (19)	$ 7,513
U.S. Agency bonds	2,497	—	(1)	2,496
Municipal bonds	5,114	—	(3)	5,111
	$ 15,143	$ —	$ (23)	$ 15,120

Maturities of marketable debt securities were as follows (in thousands):

	January 2, 2016	
	Amortized Cost	Fair Value
Marketable debt securities – current (due in less than one year)	$ 6,575	$ 6,567
Marketable debt securities – non-current (due in one to two years)	8,568	8,553
	$ 15,143	$ 15,120

During 2016, 2015 and 2014, respectively, we received proceeds of $21.1 million, $127.5 million and $54.2 million, respectively, from marketable debt securities.

Other Investments

We previously held a minority equity investment in one of our strategic product-development partners, BAM Labs, Inc. In September 2015, we completed the acquisition of the remaining outstanding capital stock of BAM Labs, Inc. The carrying value of our equity investment in BAM Labs, Inc. prior to the acquisition was $6.0 million based on the cost method. In connection with the acquisition, our equity investment was remeasured to a fair value of $12.9 million, resulting in a $3.5 million gain net of expenses, including $3.4 million of acquisition-related expenses. The remeasured fair value of our equity investment was based on the fair value of BAM Labs, Inc. at the acquisition date. The net gain of $3.5 million is included in general and administrative expenses on our consolidated statement of operations for the fiscal year ended January 2, 2016. See Note 2, *Acquisition of BAM Labs, Inc.*, for details regarding this acquisition.

(5) Inventories

Inventories consisted of the following (in thousands):

	December 31, 2016	January 2, 2016
Raw materials	$ 7,973	$ 9,349
Work in progress	72	48
Finished goods	66,981	77,203
	$ 75,026	$ 86,600

Our finished goods inventory, as of December 31, 2016, was comprised of $20.7 million of finished beds, including retail display beds and deliveries in-transit to those customers who have utilized home delivery services, $29.2 million of finished components that were ready for assembly for the completion of beds, and $17.1 million of retail accessories.

Our finished goods inventory, as of January 2, 2016, was comprised of $22.5 million of finished beds, including retail display beds and deliveries in-transit to those customers who have utilized home delivery services, $40.3 million of finished components that were ready for assembly for the completion of beds, and $14.4 million of retail accessories.

(6) Property and Equipment

Property and equipment consisted of the following (in thousands):

	December 31, 2016	January 2, 2016
Land	$ 1,999	$ 1,999
Leasehold improvements	97,600	91,184
Furniture and equipment	81,541	68,276
Production machinery, computer equipment and software	209,900	191,482
Property under capital lease	—	1,077
Construction in progress	13,823	3,540
Less: Accumulated depreciation and amortization	(196,496)	(153,182)
	$ 208,367	$ 204,376

(7) Goodwill and Intangible Assets, Net

Goodwill and Indefinite-Lived Intangible Assets

The following is a roll forward of goodwill and indefinite-lived trade name/trademarks (in thousands):

	Twelve Months Ended December 31, 2016		Twelve Months Ended January 2, 2016	
	Goodwill	Indefinite-Lived Trade Name/ Trademarks	Goodwill	Indefinite-Lived Trade Name/ Trademarks
Beginning balance	$ 64,046	$ 1,396	$ 8,963	$ 1,396
SleepIQ LABS	—	—	55,083	—
Ending balance	$ 64,046	$ 1,396	$ 64,046	$ 1,396

Definite-Lived Intangible Assets

The following table provides the gross carrying amount and related accumulated amortization of our definite-lived intangible assets (in thousands):

	December 31, 2016		January 2, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Developed technologies[1]	$ 18,851	$ 4,524	$ 18,851	$ 2,342
Customer relationships	2,413	1,365	2,413	1,020
Trade names/trademarks	101	101	101	101
	$ 21,365	$ 5,990	$ 21,365	$ 3,463

[1] In September 2015, in connection with the acquisition of BAM Labs, Inc. (now operating as SleepIQ LABS), we acquired $13.6 million of definite-lived intangible assets consisting of developed technologies.

Amortization expense in 2016, 2015 and 2014 for definite-lived intangible assets was $2.5 million, $1.3 million and $0.8 million, respectively. Annual amortization for definite-lived intangible assets is expected to be approximately $2.5 million for 2017 through 2019 and $2.2 million for 2020 and 2021.

See Note 2, *Acquisition of BAM Labs*, *Inc.,* for additional details.

8) Leases

Rent expense was as follows (in thousands):

Facility Rents:	2016	2015	2014
Minimum rents	$ 59,002	$ 52,650	$ 47,754
Contingent rents	3,099	5,168	6,241
Total	$ 62,101	$ 57,818	$ 53,995
Equipment Rents	$ 5,316	$ 4,362	$ 3,609

The aggregate minimum rental commitments under operating leases for subsequent years are as follows (in thousands):

2017	$ 66,493
2018	58,964
2019	49,322
2020	42,862
2021	37,517
Thereafter	137,239
Total future minimum lease payments	$ 392,397

(9) Credit Agreement

Our revolving credit facility, as amended, has a net aggregate availability of $150 million. The credit facility is for general corporate purposes and is utilized to meet our seasonal working capital requirements. The credit facility contains an accordion feature that allows us to increase the amount of the available credit from $150 million up to $200 million, subject to lenders' approval. The credit facility matures in February 2021.

The credit agreement provides the lenders with a collateral security interest in substantially all of our assets and those of our subsidiaries and requires us to comply with, among other things, a maximum leverage ratio and a minimum interest coverage ratio. Under the terms of the credit agreement we pay a variable rate of interest and a commitment fee based on our leverage ratio. As of December 31, 2016, we had no outstanding borrowings or letters of credit and we were in compliance with all financial covenants.

(10) Shareholders' Equity

Stock-Based Compensation Expense

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

	2016	2015	2014
Stock options	$ 2,281	$ 2,634	$ 2,125
Stock awards	9,680	7,656	4,673
Total stock-based compensation expense[1]	11,961	10,290	6,798
Income tax benefit	3,947	3,413	2,284
Total stock-based compensation expense, net of tax	$ 8,014	$ 6,877	$ 4,514

[1] Reflects a $1.2 million benefit in 2014 related to a change in estimated forfeitures due to employee turnover.

Stock Options

A summary of our stock option activity was as follows (in thousands, except per share amounts and years):

	Stock Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (1)
Balance at January 2, 2016	1,388	$ 18.44	5.3	$ 7,366
Granted	299	19.19		
Exercised	(188)	12.21		
Canceled/Forfeited	(145)	25.71		
Outstanding at December 31, 2016	1,354	$ 18.70	5.9	$ 7,541
Exercisable at December 31, 2016	927	$ 17.40	4.6	$ 6,264
Vested and expected to vest at December 31, 2016	1,315	$ 18.61	5.9	$ 7,442

(1) Aggregate intrinsic value includes only those options where the current share price is equal to or greater than the share price on the date of grant.

Other information pertaining to options was as follows (in thousands, except per share amounts):

	2016	2015	2014
Weighted-average grant date fair value of stock options granted	$ 8.85	$ 15.94	$ 9.33
Total intrinsic value (at exercise) of stock options exercised	$ 2,088	$ 4,592	$ 2,478

Cash received from the exercise of stock options for the fiscal year ended December 31, 2016 was $2.3 million. Our tax benefit related to the exercise of stock options for the fiscal year ended December 31, 2016 was $0.8 million.

At December 31, 2016, there was $2.6 million of total stock option compensation expense related to non-vested stock options not yet recognized, which is expected to be recognized over a weighted-average period of 1.8 years.

During fiscal 2016, 30,500 market-based stock options were granted and had a weighted-average grant date fair value of $10.25 per option. These options are reflected in the stock option activity table above. There were no market-based stock options granted in 2015 or 2014. The assumptions used to calculate the fair value of market-based stock options granted using the Monte Carlo simulation model were as follows:

Valuation Assumptions	2016	2015	2014
Expected dividend yield	0%	NA	NA
Expected volatility	50%	NA	NA
Risk-free interest rate	1.8%	NA	NA

Except for the market-based stock options discussed above, the fair value of options granted was calculated using the Black-Scholes-Merton option-pricing model.

The assumptions used to calculate the fair value of options granted using the Black-Scholes-Merton option-pricing model were as follows:

Valuation Assumptions	2016	2015	2014
Expected dividend yield	0%	0%	0%
Expected volatility	50%	54%	58%
Risk-free interest rate	1.4%	1.6%	1.8%
Expected term (in years)	5.2	5.2	5.3

Stock Awards

Stock award activity was as follows (in thousands, except per share amounts):

	Time-Based Stock Awards	Weighted-Average Grant Date Fair Value	Performance- and Market-Based Stock Awards	Weighted-Average Grant Date Fair Value
Outstanding at January 2, 2016	454	$23.14	710	$22.01
Granted	289	19.78	347	18.84
Vested	(189)	24.55	(52)	24.57
Canceled/Forfeited	(24)	21.34	(106)	20.24
Outstanding at December 31, 2016	530	$20.83	899	$20.87

At December 31, 2016, there was $5.2 million of unrecognized compensation expense related to non-vested time-based stock awards, which is expected to be recognized over a weighted-average period of 1.7 years and $7.8 million of unrecognized compensation expense related to non-vested performance- and market-based stock awards, which is expected to be recognized over a weighted-average period of 1.9 years.

During fiscal 2014, 126,550 market-based stock awards were granted and had a weighted-average grant date fair value of $14.90 per award. These stock awards are reflected in the "Performance- and Market-Based Stock Awards" column in the stock award activity table above. There were no market-based stock awards granted in 2016 or 2015. The assumptions used to calculate the fair value of market-based stock awards granted using the Monte Carlo simulation model were as follows:

Valuation Assumptions	**2016**	**2015**	**2014**
Expected dividend yield	NA	NA	0%
Expected volatility	NA	NA	58%
Risk-free interest rate	NA	NA	0.9%

Repurchases of Common Stock

Repurchases of our common stock were as follows (in thousands):

	2016	2015	2014
Amount repurchased under Board-approved share repurchase program	$ 125,000	$ 98,446	$ 45,044
Amount repurchased in connection with the vesting of employee restricted stock grants	1,693	1,755	1,448
Total amount repurchased	$ 126,693	$ 100,201	$ 46,492

As of December 31, 2016, the remaining authorization under our Board-approved share repurchase program was $245 million. There is no expiration date governing the period over which we can repurchase shares. Any repurchased shares are constructively retired and returned to an unissued status. The cost of stock repurchases is first charged to additional paid-in-capital. Once additional paid-in capital is reduced to zero, any additional amounts are charged to retained earnings.

Net Income per Common Share

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

	2016	2015	2014
Net income	$ 51,417	$ 50,519	$ 67,974
Reconciliation of weighted-average shares outstanding:			
Basic weighted-average shares outstanding	46,154	51,252	53,452
Dilutive effect of stock-based awards	748	849	741
Diluted weighted-average shares outstanding	46,902	52,101	54,193
Net income per share – basic	$ 1.11	$ 0.99	$ 1.27
Net income per share – diluted	$ 1.10	$ 0.97	$ 1.25

Additional potential dilutive stock options totaling 0.6 million, 0.4 million and 0.8 million for 2016, 2015 and 2014, respectively, have been excluded from our diluted net income per share calculations because these securities' exercise prices were anti-dilutive (e.g., greater than the average market price of our common stock).

(11) Other (Expense) Income, Net

Other (expense) income, net, consisted of the following (in thousands):

	2016	2015	2014
Interest expense	(811)	(160)	(53)
Interest income	$ 94	$ 494	415
Other (expense) income, net	$ (717)	$ 334	$ 362

(12) Income Taxes

Income tax expense consisted of the following (in thousands):

	2016	2015	2014
Current:			
Federal	$ 21,634	$ 7,272	$ 29,484
State	5,289	3,870	4,161
	26,923	11,142	33,645
Deferred:			
Federal	(105)	13,567	747
State	(2,302)	202	(258)
	(2,407)	13,769	489
Income tax expense	$ 24,516	$ 24,911	$ 34,134

The following table provides a reconciliation between the statutory federal income tax rate and our effective income tax rate:

	2016	2015	2014
Statutory federal income tax	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.6	3.0	2.5
Manufacturing deduction	(3.3)	(1.7)	(3.3)
Changes in unrecognized tax benefits	1.2	0.3	0.3
Non-taxable acquisition-related transactions	—	(2.6)	—
Other	(3.2)	(1.0)	(1.1)
Effective income tax rate	32.3%	33.0%	33.4%

We file income tax returns with the U.S. federal government and various state jurisdictions. In the normal course of business, we are subject to examination by federal and state taxing authorities. We are no longer subject to federal income tax examinations for years prior to 2013 or state income tax examinations prior to 2012.

Deferred Income Taxes

The tax effects of temporary differences that give rise to deferred income taxes were as follows (in thousands):

	2016	2015
Deferred tax assets:		
Stock-based compensation	$ 9,834	$ 8,756
Deferred rent and lease incentives	8,388	6,977
Warranty and returns liabilities	7,948	10,817
Net operating loss carryforwards and credits	6,368	7,847
Compensation and benefits	4,115	3,788
Other	5,264	4,561
Total gross deferred tax assets	41,917	42,746
Valuation allowance	(620)	(1,441)
Total deferred tax assets after valuation allowance	41,297	41,305
Deferred tax liabilities:		
Property and equipment	27,049	26,330
Deferred revenue	3,279	5,598
Other	6,302	6,341
Total gross deferred tax liabilities	36,630	38,269
Net deferred tax assets	$ 4,667	$ 3,036

At December 31, 2016, we had net operating loss carryforwards for federal purposes of $10.0 million, which will expire between 2025 and 2034, and for state income tax purposes of $14.8 million, which will expire between 2017 and 2036.

We evaluate our deferred income taxes quarterly to determine if valuation allowances are required. As part of this evaluation, we assess whether valuation allowances should be established for any deferred tax assets that are not considered more likely than not to be realized, using all available evidence, both positive and negative. This assessment considers, among other matters, the nature, frequency, and severity of historical losses, forecasts of future profitability, taxable income in available carryback periods and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified. We have provided a $0.6 million valuation allowance resulting primarily from our inability to utilize certain foreign net operating losses, and federal net operating losses associated with our acquisition of BAM Labs, Inc.

Unrecognized Tax Benefits

Reconciliations of the beginning and ending amounts of unrecognized tax benefits for 2016, 2015 and 2014 were as follows (in thousands):

	Federal and State Tax		
	2016	2015	2014
Beginning balance	$ 2,077	$ 742	$ 474
Increases related to current-year tax positions	326	1,277	172
Increases related to prior-year tax positions	1,594	113	110
Lapse of statute of limitations	(333)	(55)	(14)
Settlements with taxing authorities	(204)	—	—
Ending balance	$ 3,460	$ 2,077	$ 742

As of December 31, 2016 and January 2, 2016, we had $3.5 million and $2.1 million, respectively, of unrecognized tax benefits, which if recognized, would affect our effective tax rate. The amount of unrecognized tax benefits is not expected to change materially within the next 12 months.

(13) Profit Sharing and 401(k) Plan

Under our 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 year, we may make a discretionary contribution equal to a percentage of the employee's contribution. During 2016, 2015 and 2014, our contributions, net of forfeitures, were $4.6 million, $4.2 million and $3.7 million, respectively.

(14) Commitments and Contingencies

Legal Proceedings

We are involved from time to time in various legal proceedings arising in the ordinary course of our business, including primarily commercial, product liability, employment and intellectual property claims. In accordance with generally accepted accounting principles in the United States, we record a liability in our 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. With respect to currently pending legal proceedings, we have not established an estimated range of reasonably possible additional losses either because we believe that we have valid defenses to claims asserted against us or the proceeding has not advanced to a stage of discovery that would enable us to establish an estimate. We currently do not expect the outcome of these matters to have a material effect on our 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 us could adversely impact our consolidated results of operations, financial position or cash flows. We expense legal costs as incurred.

On January 12, 2015, Plaintiffs David and Katina Spade commenced a purported class action lawsuit in New Jersey state court against Select Comfort alleging that Select Comfort violated New Jersey consumer statutes by failing to provide to purchasing consumers certain disclosures required by the New Jersey Furniture Regulations. It is undisputed that plaintiffs suffered no actual damages or in any way relied upon or were impacted by the alleged omissions. Nonetheless, on behalf of a purported class of New Jersey purchasers of Select Comfort beds and bases, plaintiffs seek to recover a $100 statutory fine for each alleged omission, along with attorneys' fees and costs. Select Comfort removed the case to the United States District Court for the District of New Jersey, which subsequently granted Select Comfort's motion to dismiss. Plaintiffs appealed to the United States Court of Appeals for the Third Circuit, which has certified two questions of law to the New Jersey Supreme Court relating to whether plaintiffs who have suffered no actual injury may bring claims. The New Jersey Supreme Court has not yet indicated whether it will accept the certification. As the United States District Court for the District of New Jersey agreed, we believe that the case is without merit and the order of dismissal should be affirmed.

On December 4, 2015, Saeid Azimpour, a consumer, filed a purported class-action lawsuit in U.S. District Court in Minnesota alleging he was fraudulently induced to purchase a down alternative pillow at a Sleep Number store based on signage that indicated that the pillow was 50% off. Plaintiff alleged that the price he paid for the pillow was not truly 50% off the price at which Sleep Number previously sold the pillow. Plaintiff asserted 10 causes of action including consumer fraud, unlawful trade practices, deceptive trade practices under Minnesota law, violation of the Minnesota false advertising law, unjust enrichment, violation of the California unfair competition law, violation of the California false advertising law and violation of the California remedies act. Plaintiff sought to represent all individuals who "purchased one or more items from the Company advertised or priced at a discount from the original retail price at any time between December 1, 2011 and present." Plaintiff sought injunctive relief, damages, disgorgement and attorneys' fees. On June 13, 2016, the Court dismissed the case without prejudice. On August 25, 2016, plaintiff filed a new complaint asserting claims and prayers for relief similar to those described above. On January 4, 2017, plaintiff agreed to dismissal of all claims including dismissal with prejudice of the class claims asserted in this case.

Consumer Credit Arrangements

We refer customers seeking extended financing to certain third party financiers (Card Servicers). The Card Servicers, if credit is granted, establish the interest rates, fees, and all other terms and conditions of the customer's account based on their evaluation of the creditworthiness of the customer. As the receivables are owned by the Card Servicers, at no time are the receivables purchased or acquired from us. We are not liable to the Card Servicers for our customers' credit defaults.

Commitments

As of December 31, 2016, we had $5.5 million of inventory purchase commitments. As part of the normal course of business, there are a limited number of inventory supply contracts that contain penalty provisions for failure to purchase contracted quantities. We do not currently expect any payments under these provisions. At December 31, 2016, we had entered into 33 lease commitments for future retail store locations and a lease commitment for our corporate facilities. These lease commitments provide for minimum rentals over the next five to 15 years, which if consummated based on current cost estimates, would approximate $96 million over the initial lease term. The minimum rentals for these lease commitments have been included in the future minimum lease payments in Note 8, *Leases*.

(15) Summary of Quarterly Financial Data (unaudited)

The following is a condensed summary of our quarterly results (in thousands, except net income per share amounts). Quarterly diluted net income per share amounts may not total to the respective annual amount due to changes in weighted-average shares outstanding during the year.

2016	First	Second	Third	Fourth	Fiscal Year
Net sales	$ 352,980	$ 276,878	$ 367,988	$ 313,445	$ 1,311,291
Gross profit	209,074	171,261	232,343	197,482	810,160
Operating income	19,898	2,396	39,044	15,312	76,650
Net income	12,969	1,416	25,745	11,287	51,417
Net income per share – diluted	$ 0.27	$ 0.03	$ 0.56	$ 0.25	$ 1.10

2015	First	Second	Third	Fourth	Fiscal Year
Net sales	$ 349,809	$ 275,289	$ 373,919	$ 214,682	$ 1,213,699
Gross profit	215,833	170,539	233,636	120,743	740,751
Operating income (loss)	43,725	16,629	45,399	(30,657)	75,096
Net income (loss)	28,799	11,038	31,854	(21,172)	50,519
Net income (loss) per share – diluted	$ 0.54	$ 0.21	$ 0.62	$ (0.42)	$ 0.97

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain 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. Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting

Select Comfort's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed 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. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Select Comfort's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under these criteria, management concluded that our internal control over financial reporting was effective as of December 31, 2016. The report of Deloitte & Touche LLP, our independent registered public accounting firm, regarding the effectiveness of our internal control over financial reporting is included in this report in "Part II, Item 8, Financial Statements and Supplementary Data" under "Report of Independent Registered Public Accounting Firm."

Fourth Quarter Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information under the captions “Election of Directors,” “Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement for our 2017 Annual Meeting of Shareholders is incorporated herein by reference. Information concerning our executive officers is included in Part I of this report under the caption “Executive Officers of the Registrant.”

We have adopted a Code of Business Conduct applicable to our directors, officers and employees (including our principal executive officer, principal financial officer and principal accounting officer). The Code of Business Conduct is available on the Investor Relations section of our website at *www.SleepNumber.com. S*elect the "*About*" link, the “*Investor Relations*” link and then the "*Corporate Governance*" link. In the event that we amend or waive any of the provisions of the Code of Business Conduct applicable to our principal executive officer, principal financial officer and principal accounting officer, we intend to disclose the same on our website at *www.SleepNumber.com*.

ITEM 11. EXECUTIVE COMPENSATION

The information under the caption “Executive Compensation” in our Proxy Statement for our 2017 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Stock Ownership

The information under the caption “Stock Ownership of Management and Certain Beneficial Owners” in our Proxy Statement for our 2017 Annual Meeting of Shareholders is incorporated herein by reference.

Securities Authorized for Issuance under Equity Compensation Plans

The information under the caption "Equity Compensation Plan Information" in our Proxy Statement for our 2017 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information under the caption “Corporate Governance” in our Proxy Statement for our 2017 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the caption “Ratification of Selection of Independent Registered Public Accounting Firm” in our Proxy Statement for our 2017 Annual Meeting of Shareholders is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Consolidated Financial Statements and Schedule

(1) Financial Statements

All financial statements as set forth under Item 8 of this report

(2) Consolidated Financial Statement Schedule

The following Report and financial statement schedule are included in this Part IV:

Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits

The exhibits to this Report are listed in the Exhibit Index below.

We will furnish a copy of the exhibits referred to above at a reasonable cost to any shareholder upon receipt of a written request. Requests should be sent to: Select Comfort Corporation, Investor Relations Department, 9800 59th Avenue North, Minneapolis, MN 55442.

The following is a list of each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K pursuant to Item 15(c):

1. Select Comfort Corporation 2004 Stock Incentive Plan (Amended and Restated as of January 1, 2007)
2. Form of Nonstatutory Stock Option Award Agreement under the 2004 Stock Incentive Plan
3. Form of Restricted Stock Award Agreement under the 2004 Stock Incentive Plan
4. Form of Performance Stock Award Agreement under the 2004 Stock Incentive Plan
5. Form of Nonstatutory Stock Option Award Agreement (Subject to Performance Adjustment) under the 2004 Stock Incentive Plan
6. Select Comfort Corporation Amended and Restated 2010 Omnibus Incentive Plan
7. Form of Nonstatutory Stock Option Award Agreement under the 2010 Omnibus Incentive Plan
8. Form of Restricted Stock Award Agreement under the 2010 Omnibus Incentive Plan
9. Form of Performance Stock Award Agreement under the 2010 Omnibus Incentive Plan
10. Select Comfort Executive Investment Plan (December 1, 2014 Restatement)
11. Employment Offer Letter from Select Comfort Corporation to Shelly R. Ibach dated February 9, 2007
12. Employment Offer Letter from Select Comfort Corporation to David R. Callen dated March 14, 2014
13. Employment Offer Letter from Select Comfort Corporation to Mark A. Kimball dated April 22, 1999
14. Select Comfort Corporation Executive Physical Plan
15. Summary of Executive Tax and Financial Planning Program
16. Amended and Restated Select Comfort Corporation Executive Severance Pay Plan
17. First Amendment to Amended and Restated Select Comfort Corporation Executive Severance Pay Plan
18. Summary of Non-Employee Director Compensation

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SELECT COMFORT CORPORATION
(Registrant)

Dated: February 24, 2017	By:	/s/ Shelly R. Ibach
		Shelly R. Ibach Chief Executive Officer (principal executive officer)
	By:	/s/ David R. Callen
		David R. Callen Chief Financial Officer (principal financial officer)
	By:	/s/ Robert J. Poirier
		Robert J. Poirier Chief Accounting Officer (principal accounting officer)

POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Shelly R. Ibach, David R. Callen and Mark A. Kimball, and each of them, as such person's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in such person's name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or such person's substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date or dates indicated.

Name	Title	Date
/s/ Jean-Michel Valette Jean-Michel Valette	Chairman of the Board	February 22, 2017
/s/ Shelly R. Ibach Shelly R. Ibach	Director	February 22, 2017
/s/ Daniel I. Alegre Daniel I. Alegre	Director	February 21, 2017
/s/ Stephen L. Gulis, Jr. Stephen L. Gulis, Jr.	Director	February 22, 2017
/s/ Michael J. Harrison Michael J. Harrison	Director	February 19, 2017
/s/ Brenda J. Lauderback Brenda J. Lauderback	Director	February 18, 2017
/s/ Barbara R. Matas Barbara R. Matas	Director	February 19, 2017
/s/ Kathleen L. Nedorostek Kathleen L. Nedorostek	Director	February 19, 2017
/s/ Vicki A. O'Meara Vicki A. O'Meara	Director	February 22, 2017
/s/ Michael A. Peel Michael A. Peel	Director	February 21, 2017

SELECT COMFORT CORPORATION
EXHIBIT INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2016

Exhibit No.	Description	Method of Filing
3.1	Third Restated Articles of Incorporation of the Company, as amended	Incorporated by reference to Exhibit 3.1 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended January 1, 2000 (File No. 0-25121)
3.2	Articles of Amendment to Third Restated Articles of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 contained in Select Comfort's Current Report on Form 8-K filed May 16, 2006 (File No. 0-25121)
3.3	Articles of Amendment to Third Restated Articles of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 contained in Select Comfort's Current Report on Form 8-K filed May 25, 2010 (File No. 0-25121)
3.4	Restated Bylaws of the Company	Incorporated by reference to Exhibit 3.1 contained in Select Comfort's Current Report on Form 8-K filed December 20, 2010 (File No. 0-25121)
10.1	Net Lease Agreement dated December 3, 1993 between the Company and Opus Corporation	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Registration Statement on Form S-1, as amended (Reg. No. 333-62793)
10.2	Amendment of Lease dated August 10, 1994 between the Company and Opus Corporation	Incorporated by reference to Exhibit 10.2 contained in the Select Comfort's Registration Statement on Form S-1, as amended (Reg. No. 333-62793)
10.3	Second Amendment to Lease dated May 10, 1995 between the Company and Rushmore Plaza Partners Limited Partnership (successor to Opus Corporation)	Incorporated by reference to Exhibit 10.3 contained in Select Comfort's Registration Statement on Form S-1, as amended (Reg. No. 333-62793)
10.4	Letter Agreement dated as of October 5, 1995 between the Company and Rushmore Plaza Partners Limited Partnership	Incorporated by reference to Exhibit 10.4 contained in Select Comfort's Registration Statement on Form S-1, as amended (Reg. No. 333-62793)
10.5	Third Amendment of Lease, Assignment and Assumption of Lease and Consent dated as of January 1, 1996 among the Company, Rushmore Plaza Partners Limited Partnership and Select Comfort Direct Corporation	Incorporated by reference to Exhibit 10.5 contained in Select Comfort's Registration Statement on Form S-1, as amended (Reg. No. 333-62793)
10.6	Fourth Amendment to Lease dated June 30, 2003 between Cabot Industrial Properties, L.P. (successor to Rushmore Plaza Partners Limited Partnership) and Select Comfort Direct Corporation	Incorporated by reference to Exhibit 10.6 contained in Select Comfort's Annual report on Form 10-K for the fiscal year ended January 3, 2004 (File No. 0-25121)
10.7	Fifth Amendment to Lease dated August 28, 2006 between Cabot Industrial Properties, L.P. (successor to Rushmore Plaza Partners Limited Partnership) and Select Comfort Direct Corporation	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Quarterly report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-25121)
10.8	Lease Agreement dated September 9, 2015 between the Company and Truluck Industries, Inc.	Incorporated by reference to Exhibit 10.3 contained in Select Comfort's Quarterly Report on Form 10-Q for the quarter ended October 3, 2015 (File No. 0-25121)

Exhibit No.	Description	Method of Filing
10.09	Lease Agreement dated September 30, 1998 between the Company and ProLogis Development Services Incorporated	Incorporated by reference to Exhibit 10.12 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 28, 2002 (File No. 0-25121)
10.10	Second Amendment to Lease Agreement dated June 15, 2015 between the Company and CLFP - SLIC 8, L.P. (successor in interest to ProLogis Development Services Incorporated)	Incorporated by reference to Exhibit 10.4 contained in Select Comfort's Quarterly report on Form 10-Q for the quarter ended October 3, 2015 (File No. 0-25121)
10.11	Net Lease Agreement (Build-to-Suit) by and between Opus Northwest LLC, as Landlord, and Select Comfort Corporation, as Tenant, dated July 26, 2006	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Quarterly report on Form 10-Q for the quarter ended July 1, 2006 (File No. 0-25121)
10.12	Lease Agreement between DCI 1001 Minneapolis Venture, LLC, as Landlord, and Select Comfort Corporation, as Tenant, dated October 21, 2016	Filed herewith
10.13	Select Comfort Corporation 2004 Stock Incentive Plan (Amended and Restated as of January 1, 2007)	Incorporated by reference to Exhibit 10.16 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 30, 2006 (File No. 0-25121)
10.14	Form of Nonstatutory Stock Option Award Agreement under the Select Comfort Corporation 2004 Stock Incentive Plan	Incorporated by reference to Exhibit 10.28 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-25121)
10.15	Form of Restricted Stock Award Agreement under the Select Comfort Corporation 2004 Stock Incentive Plan	Incorporated by reference to Exhibit 10.29 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-25121)
10.16	Form of Performance Stock Award Agreement under the Select Comfort Corporation 2004 Stock Incentive Plan	Incorporated by reference to Exhibit 10.30 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-25121)
10.17	Form of Nonstatutory Stock Option Award Agreement (Subject to Performance Adjustment) under the Select Comfort Corporation 2004 Stock Incentive Plan	Incorporated by reference to Exhibit 10.20 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 30, 2006 (File No. 0-25121)
10.18	Select Comfort Corporation Amended and Restated 2010 Omnibus Incentive Plan	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed May 15, 2013 (File No. 0-25121)
10.19	Form of Nonstatutory Stock Option Award Agreement under the 2010 Omnibus Incentive Plan	Incorporated by reference to Exhibit 10.20 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended January 1, 2011 (File No. 0-25121)
10.20	Form of Restricted Stock Award Agreement under the 2010 Omnibus Incentive Plan	Incorporated by reference to Exhibit 10.21 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended January 1, 2011 (File No. 0-25121)
10.21	Form of Performance Stock Award Agreement under the 2010 Omnibus Incentive Plan	Incorporated by reference to Exhibit 10.22 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended January 1, 2011 (File No. 0-25121)

Exhibit No.	Description	Method of Filing
10.22	Select Comfort Executive Investment Plan (December 1, 2014 Restatement)	Incorporated by reference to Exhibit 10.21 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended January 3, 2015 (File No. 0-25121)
10.23	Employment Offer Letter from Select Comfort Corporation to Shelly R. Ibach dated February 9, 2007	Incorporated by reference to Exhibit 10.30 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 29, 2012 (File No. 0-25121)
10.24	Employment Offer Letter from Select Comfort Corporation to David R. Callen dated March 14, 2014	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed March 20, 2014
10.25	Employment Offer Letter from Select Comfort Corporation to Mark A. Kimball dated April 22, 1999	Incorporated by reference to Exhibit 10.25 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended January 1, 2000 (File No. 0-25121)
10.26	Select Comfort Corporation Executive Physical Plan	Incorporated by reference to Exhibit 10.27 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended January 3, 2015 (File No. 0-25121)
10.27	Summary of Executive Tax and Financial Planning Program	Filed herewith
10.28	Amended and Restated Select Comfort Corporation Executive Severance Pay Plan	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed August 21, 2008 (File No. 0-25121)
10.29	First Amendment to Amended and Restated Select Comfort Corporation Executive Severance Pay Plan	Incorporated by reference to Exhibit 10.34 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended January 3, 2009 (File No. 0-25121)
10.30	Summary of Non-Employee Director Compensation	Incorporated by reference to Exhibit 10.30 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended January 2, 2016 (File No. 0-25121)
10.31	Master Supply Agreement dated July 16, 2013 between the Company and Supplier (1)	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Quarterly Report on Form 10-Q for the quarter ended September 28, 2013 (File No. 0-25121)
10.32	Retailer Program Agreement effective as of January 1, 2014 by and between Synchrony Bank, Select Comfort Corporation and Select Comfort Retail Corporation (1)	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Quarterly Report on Form 10-Q for the quarter ended June 28, 2014 (File No. 0-25121)
10.33	First Amendment to Retailer Program Agreement, dated effective as of October 1, 2014 by and between Synchrony Bank, Select Comfort Corporation and Select Comfort Retail Corporation	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed October 1, 2014 (File No. 0-25121)

Exhibit No.	Description	Method of Filing
10.34	Second Amendment to Retailer Program Agreement, dated November 4, 2015 by and between Synchrony Bank, Select Comfort Corporation and Select Comfort Retail Corporation [(1)]	Incorporated by reference to Exhibit 10.5 contained in Select Comfort's Quarterly Report on Form 10-Q for the quarter ended October 3, 2015 (File No. 0-25121)
10.35	Select Comfort Corporation Non-Employee Director Deferral Plan	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed September 16, 2011 (File No. 0-25121)
10.36	Credit and Security Agreement dated September 9, 2015 among Select Comfort Corporation, KeyBank National Association and BMO Harris Bank, N.A.	Incorporated by reference to Exhibit 10.2 contained in Select Comfort's Quarterly Report on Form 10-Q for the quarter ended October 3, 2015 (File No. 0-25121)
10.37	First Amendment Agreement to Credit and Security Agreement dated as of September 9, 2015 by and among Select Comfort Corporation, KeyBank National Association, as Administrative Agent, Swing Line Lender and Issuing Lender, and the other financial institutions from time to time party thereto	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed February 25, 2016 (File No. 0-25121)
21.1	Subsidiaries of the Company	Incorporated by reference to Exhibit 21.1 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended January 2, 2016 (File No. 0-25121)
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
24.1	Power of Attorney	Included on signature page
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350	Furnished herewith[(2)]
32.2	Certification of CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350	Furnished herewith[(2)]

Exhibit No.	Description	Method of Filing
101	The following financial information from the Company's Annual Report on Form 10-K for the period ended December 31, 2016, filed with the SEC on February 24, 2017, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets as of December 31, 2016 and January 2, 2016; (ii) Consolidated Statements of Operations for the years ended December 31, 2016, January 2, 2016 and January 3, 2015; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, January 2, 2016 and January 3, 2015; (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, January 2, 2016 and January 3, 2015; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2016, January 2, 2016 and January 3, 2015; and (vi) Notes to Consolidated Financial Statements.	Filed herewith

(1) Confidential treatment has been requested by the issuer with respect to designated portions contained within document. Such portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

(2) This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Act of 1934, as amended, (15 U.S.C. 78r) or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any document filed under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except as otherwise expressly stated in any such filing.

SELECT COMFORT CORPORATION AND SUBSIDIARIES
Schedule II - Valuation and Qualifying Accounts
(in thousands)

Description	2016	2015	2014
Allowance for doubtful accounts			
Balance at beginning of period	$ 1,039	$ 739	$ 425
Additions charged to costs and expenses	1,224	1,577	729
Deductions from reserves	(1,379)	(1,277)	(415)
Balance at end of period	$ 884	$ 1,039	$ 739
Accrued sales returns			
Balance at beginning of period	$ 20,562	$ 15,262	$ 9,433
Additions charged to costs and expenses	71,958	84,265	78,890
Deductions from reserves	(77,298)	(78,965)	(73,061)
Balance at end of period	$ 15,222	$ 20,562	$ 15,262

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