Risk Factors Comparison 2024-02-23 to 2023-02-24 Form: 10-K

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An investment in Sleep Number' s 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 the Company. Additional risks and uncertainties, including risks and uncertainties that impact the business environment generally, those not presently known to the Company, or those that it currently ~~see~~ **sees** as immaterial, may also harm its business. If any of these risks occur, the Company' s business, results of operations, cash flows and financial condition could be materially and adversely affected. Economic Conditions, Consumer Sentiment and the Availability of Credit Adverse changes in general economic conditions have reduced, and could continue to reduce discretionary consumer spending and, as a result, have adversely affected and could continue to adversely affect the Company' s sales, profitability, cash flows **, availability of credit,** and financial condition. The Company' s success depends significantly upon discretionary consumer spending, which is influenced by a number of general economic factors, including without limitation economic growth, consumer confidence and sentiment, **consumer disposable income,** the housing market, employment **, fuel prices** , income and debt levels, interest rates, inflation, taxation, consumer shopping trends and the level of customer traffic in malls and shopping centers, political conditions **and election uncertainty, inclement weather, natural disasters, recession and fears of recession** , civil unrest and disturbances, terrorist activities, war and fears of war, including the war ~~in~~ **between Russia and** Ukraine **and the war between Israel and Hamas** , as well as **perceptions of personal wellbeing and security,** health epidemics or pandemics ~~, such as the COVID- 19 pandemic~~ . Adverse trends in these general economic factors **and reduced consumer spending** have and may continue to adversely affect the Company' s sales, profitability, cash flows ~~and~~ **,** financial condition ~~. Inflation~~ **, availability of credit, including with respect to the Company' s current credit facility, its ability to service and pay down debt, and any potential new or replacement sources of credit, or cause the Company to breach covenants or other terms contained in its Credit Agreement** , which ~~increased significantly~~ **could materially adversely affect the Company' s business, financial condition and results of operations.** ~~during~~ **During** ~~2021~~ **2022** and **2023,** ~~remained at historically~~ high **inflation** ~~rates throughout 2022~~ due to **various** ~~supply chain disruptions, increased demand or other~~ economic factors, ~~has~~ adversely affected the Company' s business operations and financial results by increasing the costs of fuel, shipping, raw materials, labor, commodity, and other costs **and may continue to do so going forward** . While the Company has historically been able to pass along some cost increases to its customers, it has not and may not be able to ~~fully~~ offset such higher costs through price increases **or other means** ~~in a persistent inflationary environment~~ , and its margins **, profitability, cash flows, availability of credit, and financial condition** have **been** and could continue to ~~decrease~~ **be adversely impacted** . **The** ~~In order to combat recent high rates of inflation, the~~ Federal Reserve significantly increased the federal funds rate ~~beginning~~ in 2022 and **2023 and** has ~~indicated that further~~ **not reduced the** rate ~~increases may be announced~~ to **date** ~~combat rising inflation in the United States~~ . Such rate increases **, as well as decisions and timing on whether or not to reduce the rate,** have and may continue to negatively affect customer purchasing behavior, which has and may continue to adversely affect the Company' s sales ~~. Additionally~~ , **profitability** ~~on January 19~~ , ~~2023~~ **cash flows** , ~~the U~~ **credit availability, and financial condition** . **It** ~~S. reached its~~ **is uncertain whether the Federal Reserve will hold, reduce, or increase the rate going forward and such uncertainty, as well as any Federal Reserve action or non- action with respect to the rate, has and may continue to negatively affect customer purchasing behavior, which has and may continue to adversely affect the Company' s sales profitability, cash flows, credit availability, and financial condition. The United States** debt ceiling **and budget deficit concerns have increased** ~~, requiring the U. S. Treasury to take extraordinary measures to avoid default. However, the U. S. Treasury expects to exhaust these~~ -- **the** ~~measures by early June 2023~~ **possibility of credit- rating downgrades** , **economic slowdowns** ~~and if U. S. lawmakers do not pass legislation to raise the federal debt ceiling by such time~~ , ~~it is possible that the U. S. could default on its debt obligations. Whether~~ or ~~not~~ a ~~U~~ **recession in the United States** . ~~S.~~ **There remain increased risks of a government shutdown or** sovereign default ~~occurs~~ **if the spending bills necessary to fund the government through 2024 are not passed by Congress. Whether or not these concerns materialize** , growing uncertainty ~~due to the unprecedented nature of such a default~~ may ~~trigger recessionary conditions, further~~ reduce consumer confidence and increase levels of unemployment, all of which may reduce demand for the Company' s products, causing harm to ~~it~~ **its** sales, profitability, cash flows **, availability of credit,** and financial condition. **Additionally, instability or disruptions to credit markets or the financial services industry, including banks that fail or otherwise become distressed, could adversely affect the Company' s, sales, operations, profitability, cash flows, availability of credit, and financial condition. 18 | 2023 FORM 10- KSLEEP NUMBER CORPORATION** Increases in interest rates has increased and may continue to increase the cost of servicing the Company' s indebtedness and have an adverse effect on its results of operations, cash flows and stock price. The Company' s credit facility currently bears interest at a variable rate based on its leverage ratio. ~~Sleep Number~~ **The Company** bears the risk that the rates charged by the Company' s lenders will ~~increase faster than~~ **outpace expectations and** the earnings and cash flow of its business ~~, which~~ **. This** has reduced **the Company' s** profitability and ~~is expected~~ **has potential** to continue to reduce profitability ~~,~~ **in addition to the potential to** adversely affect ~~its~~ **the Company' s** ability to service its debt, or cause the Company to breach covenants **or other terms** contained in its Credit Agreement, which could materially adversely affect the Company' s business, financial condition and results of operations. In ~~2022~~ **2023** , the average interest rate with respect to the Company' s credit facility significantly increased year- over- year, **which has and continues to** adversely ~~affecting~~ --- **affect** the Company' s profitability, operations and reported earnings- per- share. ~~18 | 2022 FORM 10- KSLEEP NUMBER CORPORATION~~ A reduction in the availability of, or increase in the cost of, credit to consumers generally or under the Company' s existing consumer credit programs has negatively impacted, and could continue to negatively impact, the Company' s sales, profitability, cash flows and financial condition. A significant percentage of the Company' s sales are made under consumer credit programs through third parties. The amount and cost of credit available to consumers may be adversely impacted by macroeconomic factors, including general economic conditions, consumer **confidence and sentiment, consumer** disposable income, **the housing market, employment,** fuel prices, ~~recession~~ **income** and **debt levels** ~~fears of recession~~ , ~~unemployment~~ **interest rates** , ~~war~~ **inflation, taxation, political conditions** and **election uncertainty** ~~fears of war~~ , inclement weather, **natural disasters** ~~consumer debt levels~~ , **recession** ~~conditions in the housing market, increased interest rates, sales tax rates~~ and **fears of recession** ~~rate increases, inflation~~ , civil **unrest and** disturbances ~~and~~ **,** terrorist activities, **war** ~~consumer confidence in future economic~~ and ~~political conditions~~ **fears of war** , ~~natural disasters,~~ **including the war between Russia** and **Ukraine and the war between Israel and Hamas, as well as** consumer perceptions of personal wellbeing and security, health epidemics or pandemics ~~, such as the COVID- 19 pandemic~~ , which could cause suppliers of credit to adjust their lending criteria and costs. These macroeconomic factors have, and may continue to, adversely impact the cost of credit which, in turn, has and may continue to negatively impact the Company' s sales, profitability, cash flows and financial condition. Synchrony Bank provides credit to the Company' s customers through a private label credit card agreement that is currently scheduled to expire on December 31, 2028, subject to earlier termination upon certain events. Synchrony Bank has discretion to control the content of financing offers to the Company' s customers and to set minimum credit standards under which credit is extended to customers. Reduction of credit availability due to changing economic conditions, including rising inflation, increased interest rates, changes in credit standards under the Company' s private label credit card program or changes in regulatory requirements, or the termination of its agreement with Synchrony Bank, could harm the Company' s sales, profitability, cash flows and financial condition. The **Company** ~~COVID- 19 pandemic has had, and~~ may ~~continue~~ **not be successful in achieving the expected cost savings, efficiencies, and other benefits related** to **its business restructuring actions and such actions could** have **unexpected** ~~, an~~ adverse ~~effect~~ **effects** on the Company **. The Company** ' s **strategy includes identifying and executing cost savings and operating efficiencies to increase financial resilience by expanding profit margins and cash flows to pay down debt as part of its operating transformation to a more durable** business **model** ~~and the Company' s financial results~~ . The **Company may not be successful** ~~COVID- 19 pandemic has created significant volatility, uncertainty and economic, consumer, supply chain and workforce disruption. Beginning~~ in ~~2020~~ **fully implementing its cost savings plans or realizing anticipated savings and efficiencies** , **including potentially** ~~the pandemic resulted in government restrictions, such~~ as **a** ~~quarantines, travel advisories and the implementation of social distancing measures, leading to the closure of businesses and causing weakened economic conditions. In 2022, the Company' s financial performance continued to be adversely impacted by: (i) the disruptive flow of semiconductor chips which affected its ability to deliver products to its customers; (ii) incremental costs from labor and material inflation, and expediting costs resulting from current- period global supply chain shortages; (iii) record low consumer sentiment, and (iv) other negative effects of the COVID- 19 pandemic and variants including Omicron. The Company recognizes that the long term macro- economic effects, such as the effect on the economy and the lingering effects of the COVID- 19 pandemic on the supply chain, could again in the future have an adverse effect on the Company' s business and financial results. The extent to which COVID- 19 will impact the Company' s business and financial results during 2023 will depend on future developments, including the duration and continued spread of COVID- 19, the effectiveness of vaccines against COVID- 19 and new variants that may arise, and the possibility that resurgences may~~ result ~~in government restrictions being reimposed. Although most state and local governments have eased or lifted restrictions, it is possible that a resurgence in COVID- 19 cases, particularly due to variants~~ of **factors outside the Company' s control** ~~COVID- 19, could prompt a return to tighter restrictions in certain areas~~ . **A failure** ~~For~~ - **or delay** ~~example, some of Sleep Number' s manufacturing partners' facilities~~ in ~~China have been temporarily closed from time to time due to strict COVID-~~ **implementing or realizing the anticipated savings and efficiencies of its cost savings plans and** related **strategic initiatives** ~~lockdown requirements. If lockdowns or other pandemic- related restrictions in China are imposed, this~~ could materially **and adversely impact the Company' s business, results, profitability, cash flows, availability of credit, and financial condition. Charges and costs incurred in connection with implementing the cost savings plan and business restructuring actions may be significant and have and may continue to be higher than expected. In addition, implementing the cost savings plans could unexpectedly and** negatively impact the Company' s **workforce, partnerships, initiatives, innovation, and development plans or otherwise interfere with the Company' s** ability to **grow** ~~source raw materials and product and transport goods in its supply chain. Such occurrences may have an~~ **and compete effectively, each of which could** ~~adverse~~ **adversely impact** ~~effect on~~ the Company' s business **, results, profitability, cash flows, availability of credit,** and financial ~~results~~ **condition** . **19 | 2023 FORM 10- KSLEEP NUMBER CORPORATION** Risks Related to the Company' s Reliance on Third Parties and Reliance on a Global Supply Chain **The Company relies upon several key suppliers and third parties that are, in some instances, the only source of supply or services currently used by the Company for particular materials, components, products, services, or consumer financing. A disruption in the supply or substantial increase in cost of any of these products or services has, and could continue to, harm the Company' s sales, profitability, cash flows, availability of credit, and financial condition.** Sleep Number ~~States government has~~ implemented certain trade policies,including imposing tariffs on certain goods imported from China and other countries and imposing sanctions against Russia as a result of the war in Ukraine,and may take further actions with respect to these policies in the future.Additionally,although the Company does not have operations in Russia,Belarus,or Ukraine **,have not had a material amount of sales into these countries,** and ~~has~~ **have** not been directly impacted by the war in Ukraine,some of the Company' s third- party suppliers have disclosed that they may source,directly or indirectly,a portion of their supply chain requirements of gold,tantalum,tin, **tungsten,** and ~~tungsten~~

~~(collectively the “ 3TGs ”),as well as~~ birch plywood from Russia. ~~Similarly~~ **These factors have** , ~~some of~~ has been, and could continue to be, vulnerable to shortages in supply of components necessary to manufacture its products due to its manufacturing processes which operate with minimal levels of inventory or due to global shortages of supply of electronic componentry or other materials, which, in turn, has and may ~~19 | 2022 FORM 10- KSLEEP NUMBER CORPORATION~~ continue to harm its ability to satisfy consumer demand and adversely impact the Company’ s sales and profitability. A significant percentage of the Company’ s products are assembled after it receives orders from customers utilizing manufacturing processes with minimal levels of raw materials, work- in- process and finished goods inventories. Lead times for ordered components may vary significantly, and some components used to manufacture its products are provided on a sole source basis. The Company ~~has experienced lengthened lead times throughout its supply chain as a result of supply chain constraints and material shortages that occurred in 2021, continued in 2022, and may continue in 2023. The Company~~ ’ s **ongoing** efforts to mitigate supply chain weaknesses may not be **21** ~~successful or may have unfavorable effects. For example, efforts to purchase raw materials in advance for product manufacturing has resulted in, and may continue to result in, increased storage costs or excess supply. In addition, with the increasing prevalence of and consumer demand for electronic products, along with COVID- 19’ s impact on the global supply chain over the past three years, the global supply of electronic componentry has been strained, which has led to shortages in supply and increased prices, and has adversely affected, and may continue to adversely affect, its operations, costs, production capacity, delivery timeframe, product development, sales, profitability, and financial results. Shortage of materials caused by disruptions or unavailability of supply or an increase in the demand for its products, has harmed and could continue to harm the Company’ s ability to satisfy customer demand, delay deliveries of its products to customers, lead to customer cancellations and returns, delay the development and launch of new products, and increase its costs. Any such impacts or delays could adversely affect the Company’ s sales, customer satisfaction, profitability, cash flows and financial condition. The Company relies upon several key suppliers and third parties that are, in some instances, the only source of supply or services currently used by the Company for particular materials, components, products or services. A disruption in the supply or substantial increase in cost of any of these products or services has, and could continue to, harm the Company’ s sales, profitability, cash flows and financial condition. Sleep Number currently obtains all the materials and components used to produce its smart beds from outside sources including some that are located outside the United States. In several cases, including its air chambers, integrated non- adjustable foundations, adjustable foundations, various components for its Firmness Control and Smart Control systems, certain electronic componentry, certain foam formulations, as well as its fabrics and zippers, the Company obtains these materials, components and products from suppliers who serve as the only source of supply, or who supply the vast majority of the Company’ s needs of the particular material, component or product. While the Company believes that some of these materials, components and products, or suitable replacements, could be obtained from other sources in the event of a disruption or loss of supply, it has not been able to, and in the future may not be able to, find alternative sources of supply or alternative sources of supply on comparable terms, quantities and timelines. If the Company’ s relationship with the primary supplier of its air chambers, adjustable foundations, or electronic components is terminated or significantly disrupted, the Company could have difficulty in replacing these sources since there are relatively few other suppliers presently capable of manufacturing these components and products. Constraints on the ability of certain of its suppliers to timely meet commitments, including in an environment of increased demand for consumer products and labor challenges, has, and may continue to, adversely impact the Company’ s ability to meet its product demand, result in additional costs, or otherwise adversely impact the Company’ s business, operations and financial results. Similarly, the Company relies on third parties to deliver some of its products to its facilities and customers on a timely and cost- effective basis. These third- party providers could be vulnerable to labor challenges, liquidity concerns, the impacts of global health conditions, or other factors that may result in delays in deliveries or increased costs of deliveries. Any significant delay in deliveries to its customers could lead to increased cancellations or returns and cause the Company to lose sales or incur increased costs. Delays in deliveries and increases in freight charges or other costs of deliveries has and could continue to harm the Company’ s sales, profitability, cash flows and financial condition. Fluctuations in commodity prices or availability or third- party logistics costs has resulted, and could continue to result, in an increase in component costs and / or delivery costs. The Company’ s business is subject to significant increases or volatility in the prices of certain commodities, including but not limited to electronic componentry, fuel, oil, natural gas, rubber, cotton, plastic resin, corrugate, steel and chemical ingredients used to produce foam, as well as third- party logistic costs. Increases in prices of these commodities or logistics costs or other inflationary pressures have resulted, and may continue to result, in significant cost increases for the Company’ s raw materials and product components, as well as increases in the cost of delivering its products to 20~~ | 2022~~ **2023** FORM 10- KSLEEP NUMBER CORPORATION **successful** ~~customers. The Company has been, and may continue to be, unable to offset any such increased costs through value engineering and similar initiatives,~~ or **may** ~~through price increases, and, as a result, the Company’ s profitability, cash flows and financial condition~~ have **unfavorable effects** been, and may continue to be...... terrorism, global conflicts or war (such as **increased storage costs** ~~the war in Ukraine), outbreaks of pandemics~~ or **excess** ~~contagious diseases, shipping delays, foreign or domestic strikes, customs inspections, or other factors resulting in disruption in~~ supply ~~, transportation, trade, labor,~~ **. Shortage of materials caused by disruptions** or ~~the availability~~ **unavailability** of **supply or** ~~global contractors utilized in the Company’ s business operations; • Foreign currency fluctuations; and~~ - **an increase** ~~• Economic uncertainties, including inflation. The Company cannot predict whether the countries~~ in ~~which~~ **the demand for** some ~~of its components are manufactured, or may be manufactured in the future, or where the Company contracts for~~ - **or all** ~~labor will be subject to new or additional trade restrictions imposed by the United States or other foreign governments, including the likelihood, type, or effect~~ of **its products,** ~~any such restrictions. The United States government~~ has **harmed** implemented certain trade policies, including imposing...... from Russia. These factors have, and could continue to **harm the Company’ s ability to satisfy customer demand** , **delay deliveries of its products to customers, lead to customer cancellations and returns, delay the development and launch of new products, and** increase

~~the~~ **its** costs **. In addition** ~~of doing business with foreign suppliers~~ , ~~lead to inadequate~~ **the Company may carry some excess** inventory ~~levels~~ **of certain components** ~~or~~ **for various** ~~delays in shipping~~ products **from time** to ~~customers~~ **time especially when the Company has faced component shortages or when the Company introduces new products that use different components, and if the Company is unable to use that excess inventory fully or timely, the Company may run the risk of obsolescence** , which could **result** ~~harm the Company' s sales, customer satisfaction, profitability, cash flows and financial condition. The Company' s operations and those of its suppliers are located~~ in **write** ~~various regions of the U. S. and across the globe, which subjects the Company to regional risks, such as adverse weather conditions and other natural or man~~ - **downs of inventory and** ~~made disasters. The locations where Sleep Number and~~ - **an** ~~its suppliers and global contractors operate have experienced, and may experience in the future, adverse regional events such as extreme weather conditions and other natural and man- made disasters, which could have a significant~~ adverse effect on **gross margins** ~~the Company, its ability to source necessary materials, components and products, and its ability to develop, launch, sell and deliver its products to customers~~ . **Any** ~~Climate change may increase the frequency and severity of adverse weather conditions and other natural disasters. All regions of the U. S. and warmer climates globally may be particularly impacted by extreme weather,~~ such **impacts or delays could adversely affect** ~~as hurricanes, natural disasters, droughts, wildfires and rising sea levels. These events have disrupted, and may continue to, disrupt~~ the Company' s ~~operations~~ **sales, customer satisfaction, profitability, cash flows** and **financial condition** ~~ability to source components and products~~ . Risks Related to the Company' s Marketing Strategy and Execution of Total Retail Distribution Strategy The Company' s future growth and profitability depend upon the effectiveness and efficiency of its marketing programs. The Company is highly dependent on the effectiveness of its marketing messages and the efficiency of its advertising expenditures in generating consumer awareness, consideration and conversation leading to sales of its products. Sleep Number continues to evolve its marketing strategies, adjust its messages, and review the amount it spends on advertising and where it is spent. The Company may not always be successful in developing effective messages, as the consumer and competition change, or in achieving efficiency in its advertising expenditures. ~~21 | 2022 FORM 10- KSLEEP NUMBER CORPORATION~~ The Company relies in part upon third parties, such as social media influencers and athletes, to market its brand, and are unable to fully control their efforts. Influencers and athletes with whom the Company maintains a relationship could engage in behavior or use their platforms to communicate directly with Sleep Number' s customers in a manner that reflects poorly on its brand, and these communications may be attributed to the Company or otherwise adversely affect the Company. It is not possible to prevent such behavior, and the precautions the Company takes to prevent or detect this activity may not be effective. Consumers are increasingly having digital experiences and interactions as a part of their shopping experience. As a result, the Company' s future growth and profitability will depend in part on (i) the effectiveness and efficiency of the Company' s online experience, including without limitation advertising and search marketing and optimization programs, in generating consumer awareness and sales of its products; (ii) the Company' s ability to prevent confusion among consumers that can result from search engines that allow competitors to use its trademarks to direct consumers to competitors' websites through confusing or misleading advertisements; (iii) its ability to prevent Internet publication of false or misleading information regarding its products or the Company' s competitors' products; (iv) reviews of Sleep Number' s products; (v) the nature and tone of consumer sentiment, including those published online or elsewhere; and (vi) the stability of the Company' s website. Competitor spending on digital marketing programs has and may continue to increase, including without limitation from a number of direct- to- consumer, digital and omnichannel retailers, which, in turn, has and may continue to increase the cost of the Company' s digital marketing programs and online search terms. If the Company' s marketing messages are ineffective or its advertising expenditures and other marketing programs, including digital programs, are inefficient in creating awareness and consideration of its products and brand name, and in driving consumer traffic to the Company' s website, call centers, or stores, the Company' s sales, profitability, cash flows **, availability of credit,** and financial condition may be adversely impacted. In addition, if the Company is not effective in preventing the publication of confusing, false or misleading information regarding its brand or its products, or if there is publication online or elsewhere of significant negative consumer sentiment regarding the Company, brand or products, sales, profitability, cash flows **, availability of credit,** and financial condition may be adversely impacted. The Company' s future growth and profitability depend on its ability to execute its Total Retail distribution strategy. The vast majority of the Company' s sales occur through Total Retail, including its retail stores and website. Total Retail represents the Company' s largest opportunity for growth in sales and improvement in profitability. The Company' s retail stores carry significant fixed costs. Sleep Number also makes significant capital expenditures as it open new stores and remodel or reposition existing stores. The Company is highly dependent on its ability to maintain and increase sales per store to cover these fixed expenses, provide a return on its capital investments and improve the Company operating **22 | 2023 FORM 10- KSLEEP NUMBER CORPORATION** margins **. As a part of the Company' s cost savings plan and business restructuring actions, select stores have been closed and additional stores are expected to be closed. These closures may result in higher than expected costs, charges, lost sales, lower brand awareness, or otherwise negatively impact the Company' s sales, profitability, cash flows, availability of credit, and financial condition** . Some of the Company' s stores are mall- based. The Company depends on the continued popularity of malls as shopping destinations and the ability of mall anchor tenants and other attractions to generate customer traffic for its mall- based retail stores. Any decrease in mall traffic, including due to increased online shopping, could adversely affect the Company' s sales, profitability, cash flows **, availability of credit,** and financial condition. The Company' s Total Retail distribution strategy results in relatively few points of distribution, including ~~670~~ **672** retail stores in 50 U. S. states as of the end of ~~2022~~ **2023** , Online, Phone and Chat. Several of the mattress manufacturers and retailers with which the Company competes have significantly more brick- and- mortar points of distribution than it does, which makes the Company highly dependent on its ability to drive consumers to its points of distribution to gain market share. The Company' s longer- term Total Retail distribution strategy is also dependent on its ability to **effectively select stores to close,** renew existing store leases and to secure suitable locations for new store openings, in each case on a cost- effective basis. The Company may encounter higher than anticipated rents and other costs in connection with managing its retail store base. The Company may also be unable to find or obtain suitable new locations or renew existing locations. Failure to achieve and maintain a high level of product quality could negatively impact the Company' s sales, profitability, cash flows and financial condition. The Company' s products are highly differentiated from traditional innerspring mattresses and from viscoelastic and other foam mattresses, which have little or no technology and do not rely on electronics and air control systems. As a result, its ~~22 | 2022 FORM 10- KSLEEP NUMBER CORPORATION~~ beds may be susceptible to failures that do not exist with traditional or foam mattresses. Failure to achieve and maintain acceptable quality standards could impact consumer acceptance of its products or result in negative media and Internet reports or owner dissatisfaction that could negatively impact the Company' s 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 the Company' s warranty reserves. An unexpected increase in return rates or warranty claims could harm the Company' s sales, profitability, cash flows and financial condition. As a consumer innovation Company with differentiated products, the Company faces an inherent risk of exposure to product liability claims or regulatory actions if the use of its products is alleged to have resulted in personal injury or property damage. If any of the Company' s products proves to be defective or non- compliant with applicable regulations such as the federal Consumer Product Safety Commission flammability standards, the Company may be required to recall or redesign such products. The Company has 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 it products to develop mold. The Company may experience additional adverse impacts on sales and additional litigation if any similar media reports were to occur in the future. The Company maintains insurance against some forms of product liability claims, but such coverage may not be applicable to, or adequate for, liabilities actually incurred. A successful claim brought against the Company outside of, or in excess of, available insurance coverage, or any claim or product recall that results in significant adverse publicity about the Company, may have a material adverse effect on the Company' s sales, profitability, cash flows and financial condition. The Company' s future growth and profitability depend in part on its ability to continue to improve and expand its product line and to successfully execute new product introductions. As described in greater detail below, the bedding industry, as well as the market for sleep monitoring products, are both highly competitive, and the Company' s ability to compete effectively and to profitably grow its market share depend in part on its ability to continue to improve and expand the Company' s product line of adjustable firmness air beds, SleepIQ technology and related accessory products. The Company incurs significant research and development and other expenditures in the pursuit of improvements and additions to its product line **and is re- prioritizing research and development resources in this highly constrained environment** . If these efforts do not result in meaningful product improvements or new product introductions, if the Company is not able to gain widespread consumer acceptance of product improvements or new product introductions, or there are delays or production limitations with respect to its **23 | 2023 FORM 10- KSLEEP NUMBER CORPORATION** product improvements or new product introductions, the Company' s sales, profitability, cash flows and financial condition may be adversely affected. If the Company offers products or services in other countries, the Company' s business may be exposed to additional risks, such as additional and varied legal / regulatory requirements, complexity and cost to maintain operations in multiple countries, adapting and localizing products for enhanced market acceptance, ability to enforce intellectual property rights, tariffs and non- tariff barriers, fluctuation in and barriers to currency exchange, and political or social unrest, and economic instability. In addition, if any significant product improvements or new product introductions are not successful, delayed, or constrained the Company' s reputation and brand image may be adversely affected. The Company' s intellectual property rights may not prevent others from using its technology or trademarks in connection with the sale of competitive products. The Company is from time to time subject to claims that its products, processes or trademarks infringe intellectual property rights of others. The Company owns various U. S. and foreign patents and patent applications related to certain elements of the design and function of the Company' s beds, biosignal monitoring and related products. The Company owns numerous registered and unregistered trademarks and trademark applications, including in particular the Sleep Number ~~, Sleep Number 360, 360~~ , Climate360 and SleepIQ trademarks, as well as other intellectual property rights, including trade secrets, trade dress and copyrights, which it believes has significant value and is important to the development, function, and marketing of its products. These intellectual property rights may not provide adequate protection against infringement or piracy, may not prevent competitors from developing and marketing products that are similar to or competitive with Sleep Number beds, biosignal monitoring or other products, and may be costly and time- consuming to protect and enforce. The Company' s patents are also subject to varying expiration dates. In addition, the laws of some foreign countries may not protect its intellectual property rights and confidential information to the same extent as the laws of the United States. If the Company is unable to protect and enforce its intellectual property, the Company may be unable to prevent other companies from using the Company' s technology or trademarks in connection with competitive products, which could adversely affect the Company' s sales, profitability, cash flows and financial condition. ~~23 | 2022 FORM 10- KSLEEP NUMBER CORPORATION~~ The Company is from time to time subject to claims that its products, processes, advertising, or trademarks infringe the intellectual property rights of others. The defense of these claims, even if ultimately successful, may result in costly litigation, and if the Company is not successful in its defense, it could be subject to injunctions and liability for damages or royalty obligations, and the Company' s sales, profitability, cash flows and financial condition could be adversely affected. Risks Related to the Company' s Vertically Integrated Business Significant competition could adversely affect the Company' s business. Because of the vertical integration of the Company' s business model, its products and distribution face significant competition from both manufacturers of different types of mattresses and a variety of retailers. The Company' s 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 foam mattresses and one dominant national mattress retailer **, including further consolidation**

pending a publicly announced merger or other business combination of one such mattress manufacturer and a national mattress retailer set to close in the second half of 2024 . In recent years, numerous direct- to- consumer companies and low-cost importers have entered the market, offering “ bed- in- a- box ” or similar products primarily through online distribution directly to consumers though many now also partner with traditional mattress retailers. A variety of sleep tracking and monitoring products that compete with the Company’ s SleepIQ technology have been introduced by various manufacturers and retailers, both within and outside of the traditional mattress industry. **A variety of mattress and base manufacturers have also come to market with copycat smart beds, some featuring a version of what they market as “ adjustable firmness. ”** This competition has and may continue to increase the costs of search terms and digital advertising and otherwise adversely affect the Company’ s business. Some of the Company’ s competitors have substantially greater financial, marketing and manufacturing resources and greater brand name recognition than the Company does and sell products through broader and more established distribution touchpoints. **Proposed consolidation in the mattress industry will amplify this disparity.** The Company’ s **24 | 2023 FORM 10- KSLEEP NUMBER CORPORATION** national, exclusive distribution competes with other retailers who generally provide a wider selection of mattress alternatives than the Company offers. A number of these retailers also have more points of distribution, greater marketing resources, and greater brand name recognition than the Company does. These manufacturing and retailing competitors, or a combination of these 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. The Company has limited ability to anticipate the timing and scale of new product introductions, advertising campaigns or new pricing strategies by its competitors, which could inhibit its ability to retain or increase market share, or to maintain the Company’ s profit margins. If the Company is unable to effectively compete with other manufacturers and retailers of mattress and sleep tracking and monitoring products, the Company’ s sales, profitability, cash flows and financial condition may be adversely impacted. Disruption to the Company’ s **facilities** ~~manufacturing, distribution, logistics, home delivery, product development,~~ and ~~customer service~~ operations could increase its costs of doing business or harm the Company’ s ability to satisfy customer demand, develop **, test** and launch new products, and service its products and customers. **As a vertically integrated business, the Company has various facilities and operations including manufacturing, assembly, distribution, logistics, field services, home delivery, headquarter, product development, retail and customer service.** Sleep Number ~~has manufacturing plants located~~ **operates a dedicated cut and sew facility for cover production** in Irmo, ~~South Carolina~~ **SC and** ~~and~~ - **an advanced engineering and prototyping facility in** Salt Lake City, ~~Utah,~~ **UT.** ~~each~~ **Each** of ~~which is~~ **these facilities are** combined with an assembly distribution center (ADC). ~~The~~ **There are five** ~~Company has six~~ additional ADCs ~~across the country~~ **(Ontario, CA; Tampa, FL; Dallas, TX; Cincinnati, OH; and Minneapolis, MN) and one former assembly distribution center now used as a distribution center (Baltimore, MD)** . The ~~eight~~ **seven** ADCs leverage component inventory to pre- assemble 100 % of ~~our~~ **its** smart mattresses to order rather than stocking finished goods. The Company has **field service and** home delivery operations and contractors that deliver **and service** its products ~~to customers~~ across the country as well as a bedding fulfillment center that ships bedding products to consumers via third- party services. The product development and testing operations primarily occur in the Company’ s corporate headquarters in Minneapolis, Minnesota and Sleep Number Labs facility in San Jose, California. Sleep Number’ s customer service operations are **largely remote positions with team members** located ~~in New Orleans~~ **across the country** , ~~Louisiana and Minneapolis, Minnesota~~ and the Company has retail stores across the country. ~~While we can shift demand among our eight ADCs, disruption~~ **Disruption** to any of the ~~ADCs or other~~ **Company’ s** operations, facilities, workforce, or the Company’ s nationwide logistics network could harm or delay its ability to satisfy customer demand, develop, test and launch new products, service its products and customers, and increase its costs. Such impacts and delays could adversely affect the Company’ s sales, customer satisfaction, profitability, cash flows **, availability of credit,** and financial results. ~~24 | 2022 FORM 10- KSLEEP NUMBER CORPORATION~~ Risks Related to Legal Compliance and Legal Proceedings The Company’ s 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 the Company’ s operations or increase its compliance costs. Failure to comply with such laws and regulations could have further adverse impacts on the Company’ s operations. The Company is subject to a wide variety of laws and regulations relating to the bedding industry or to various aspects of its business. Laws and regulations at the federal, state and local levels frequently change and the Company 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~~ **claims,** marketing practices, pricing, consumer credit offerings, “ do not call / mail ” requirements, text messaging requirements, product testing and safety, **health and wellness product requirements, use of artificial intelligence,** transportation and logistics, health care, tax, accounting, privacy and data security, health and safety or environmental issues, warranty disclosures, delivery timing requirements, accessibility requirements, among others, could require the Company to change the way it does business and could have a material adverse impact on the Company’ s sales, profitability, cash flows and financial condition. New or different laws or regulations could increase direct compliance costs for the Company or may cause its vendors to raise the prices they charge the Company 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 the Company is currently subject, particularly **25 | 2023 FORM 10- KSLEEP NUMBER CORPORATION** where the layers are in conflict, could require alteration of its manufacturing processes or operational parameters which may adversely impact the Company’ s business. Legislative or regulatory changes that impact the Company’ s relationship with its workforce, such as minimum wage requirements or health insurance or other employee benefits mandates, could increase the Company’ s expenses and adversely affect its operations. While it is Sleep Number’ s policy and practice to comply with legal and regulatory requirements and its procedures and internal controls are designed to promote such compliance, the Company cannot assure that all of its operations will comply with all such legal and regulatory requirements. Further, laws and regulations change over time and the Company may be required to incur significant expenses and / or to modify its operations in order to ensure compliance. This could harm the Company' s profitability or financial condition. If Sleep Number is found to be in violation of any laws or regulations, it could become subject to fines, penalties, damages or other sanctions as well as potential adverse publicity or litigation exposure. This could adversely impact the Company' s business, reputation, sales, profitability, cash flows or financial condition. The Company' s ability to commercialize new products and innovations may be delayed or prevented by regulatory requirements. As the Company works to develop innovations with enhanced health capabilities, including possible capabilities of providing advanced monitoring and health risk evaluations, depending on the features that ultimately become commercially available, some features may require regulatory requirements or approvals beyond those that apply to Sleep Number' s current products or features. These additional regulatory requirements or approvals may be prohibitively expensive or otherwise delay or prevent certain features, innovations, or product from being commercialized. Pending or unforeseen litigation and the potential for adverse publicity associated with litigation could adversely impact the Company' s business, reputation, financial results or financial condition. The Company is involved from time to time in various legal proceedings arising in the ordinary course of its business, including primarily commercial, product liability, employment and intellectual property claims. The Company currently does not expect the outcome of any pending matters to have a material effect on the Company' s 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 the Company, or claims that may be asserted in the future that the Company is currently not aware of, or adverse publicity resulting from any such litigation, could adversely impact the Company' s business, reputation, sales, profitability, cash flows and financial condition. ~~25 | 2022 FORM 10- KSLEEP NUMBER CORPORATION~~ Risks Related to the Company' s Information Systems and Cybersecurity Information systems that contain confidential Company data, consumers' personal information, and team members' personal information may be subject to attacks by hackers or other cyber threats that could compromise the confidentiality, integrity, and availability of the data, which could substantially disrupt the Company' s business and could result in a breach of the data. The Company' s information systems and information systems of third- party vendors it uses to assist in the storage and management of information, including on- premise and cloud- based systems, ~~contains~~ - **contain** personal **, financial, and SleepIQ ® data and** information related to its customers and team members collected and maintained in the ordinary course of its business ~~, such as credit card and demographic information of its customers, SleepIQ ® data, including biosignal data (e. g., sleep, physiological) from Sleep Number' s customer base and social security numbers, demographic information, and employment- related information of its team members~~ . These information systems also contain confidential Company data regarding its business and innovations. The Company' s use and dependence on its information systems has increased with amplified remote working ~~since the onset of the COVID- 19 pandemic~~ and **has required** additional data storage in cloud- based systems. While the Company maintains, and requires the Company' s third- party vendors to maintain, security measures to protect this information, a breach of these security measures, such as through third- party action and attacks, team member error, access to its data and systems, malfeasance or otherwise, could compromise the security of the Company' s data and customers' and team members' personal information. Like many other businesses, Sleep Number has and will likely continue to experience cyber- based attacks and incidents from time to time. As the techniques used to breach security measures change frequently and may not be recognized until launched against a target, the Company may be unable to anticipate these techniques or to implement adequate preventive measures. **In addition, the Company or its third- party vendors may not be successful in timely identifying or remediating cyber- based attacks and incidents.** Any failure of the Company' s systems and processes or its third- party vendors' systems and processes to adequately protect its data or customer or team member personal information from **26 | 2023 FORM 10- KSLEEP NUMBER CORPORATION** exposure, theft or loss could adversely impact the Company' s business, reputation, sales, profitability, cash flows and financial condition. **Advancements in and adoption of artificial intelligence technologies may increase cost and risks associated with competition, regulatory requirements, and cybersecurity threats. Rapidly evolving technological and regulatory developments related to artificial intelligence and related technologies may increase competitive, legal, and security risks facing the Company. To effectively compete, the Company may need to increase investments to innovate new capabilities and features based on artificial intelligence as well as to develop appropriate protections, safeguards, and policies for handling the processing of data. In addition, the regulatory and legal landscape regarding artificial intelligence is rapidly evolving and the Company may be challenged to timely comply in a cost- effective manner. Any actual or perceived failure to comply with evolving regulatory frameworks regarding, or the introduction of potential or actual bias through, the development and use of artificial intelligence could adversely affect the Company' s business operations, reputation, customer satisfaction, profitability, cash flows, and financial condition. In addition, new artificial intelligence technologies may increase the risk of internal or external data loss, misappropriation of intellectual property, and enable cyber- attackers to create increasingly effective and powerful methods of cyber- attack, including, for example, the development of malicious code, denial- of- service attacks, use of quantum computing, sophisticated phishing attempts, and other attacks. The Company may not be able to sufficiently identify, withstand, and remediate such attacks, which may cause disruption to business operations and harm the Company' s sales, customer satisfaction, profitability, cash flows and financial condition.** Any maintenance, improvements or upgrades to information systems **and services** that may be required to meet the **ongoing and** evolving needs of the Company' s business and cybersecurity needs as well as existing and emerging regulatory requirements may be costly to implement, may take longer or require greater resources than anticipated and may result in disruptions to its systems or business. The Company depends on its information systems **and services** for many aspects of its business **including those provided by suppliers and third parties** . Sleep Number has and may continue to have disruptions or outages to ~~its~~ **these** information systems **and services** that negatively impact its business and systems. If the

Company' s information systems **and services** are disrupted in any material way, or maintenance, improvements or upgrades are required to meet the **ongoing or** evolving needs of its business, cybersecurity needs, and existing and emerging regulatory requirements, **then** the Company may be required to incur significant capital expenditures in the pursuit of **continuity,** improvements or upgrades to its information systems **and services** . 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 ~~or~~ **, fines,** security vulnerabilities to **, or otherwise negatively impact** the Company' s existing systems and business. Any of these outcomes could impair the Company' s ability to achieve critical strategic initiatives and could adversely impact the Company' s sales, profitability, cash flows and financial condition. **New** ~~Additionally, on February 9, 2022, the~~ SEC ~~proposed new~~ rules related to ~~cyber security~~ **cybersecurity** risk management ~~, which~~ may **further** increase the Company' s regulatory burden and **the** cost of compliance **in such events** ~~related to cyber security threats. The Company is currently assessing the impact of the new rules, if adopted as proposed, but at this time, it cannot predict the costs of implementation or any potential adverse impacts resulting from the new rules~~ . Risks Related to Workforce The Company' s **operating performance, profitability, and** future growth ~~and profitability depends~~ - **depend** upon its ability to attract, retain and motivate qualified **and effective** personnel. As a vertically integrated manufacturer and retailer, the Company' s future growth and profitability will depend upon its ability to attract, retain and motivate qualified personnel in a wide variety of areas to execute its growth strategy, including qualified management and executive personnel, retail sales professionals and managers, and manufacturing, home delivery and technical personnel. **In addition, the Company' s success will depend upon the effectiveness of its organizational leadership and managers as well as the capabilities of its team members.** The current labor challenges ~~, the world- wide trends of corporate resignations,~~ or other economic factors may prevent the Company, and its suppliers and vendors, from successfully hiring and retaining ~~26~~ **qualified personnel. The failure to attract, retain and motivate qualified personnel or the lack of effective organizational leadership, management or appropriate team capabilities may hinder the Company' s ability to execute its business strategy and growth initiatives and may adversely impact the Company' s sales, profitability, cash flows, and financial condition. Certain portions of the Company' s workforce, in particular its home delivery, logistics, manufacturing, warehouse, and retail, may seek to unionize or engage in unionization activities. Such activities may cause distraction from the Company' s 27** | ~~2022~~ **2023** FORM 10- KSLEEP NUMBER CORPORATION **core business** ~~qualified personnel. The failure to attract~~ , **reduce** ~~retain and motivate qualified personnel may hinder~~ the Company' s ability to ~~execute~~ **manufacture, sell, or deliver** its ~~business strategy~~ **products, increase the Company' s costs, reduce efficiency,** and ~~growth initiatives and may~~ adversely impact the Company' s sales, profitability, cash flows **,** and financial condition. Risks Related to the Company' s Stock **The Company' s stock price has and may continue to fluctuate and the Company' s financial results, removal from various stock indices and other factors have and may continue to adversely affect the Company' s stock price. The Company' s stock price has and may continue to fluctuate significantly in response to numerous factors such as: the overall performance of the equity markets and the economy as a whole; the Company' s' financial and operating performance, which may fluctuate due to the risk factors set forth herein; changes in the financial projections the Company or third parties may provide to the public or the Company' s failure to meet these projections; actual or anticipated changes in its growth rate relative to that of its competitors; inclusion or removal from various stock indices; significant stock trades by large shareholders; failure of securities analysts to maintain coverage of the Company; changes in financial estimates by securities analysts who follow the Company or its failure to meet these estimates or the expectations of investors; sales of share of the Company' s common stock by Sleep Number or its shareholders particularly sales by its directors, executive officers and significant shareholders or the perception that these sales could occur. Although our common shares are quoted on the Nasdaq Stock Market, the volume of trades on any given day may be limited and, as a result, shareholders might not be able to sell or purchase our common shares at the volume, price or time desired. On November 28, 2023, S & P Global announced that the Company' s common shares would be removed from the S & P SmallCap 600 index effective December 4, 2023. This removal and any other removal from various stock indices has and may continue to cause index funds, institutional investors, or other shareholders attempting to track the composition of that index to sell the Company' s common stock, adversely affecting the stock price.** A substantial amount of the Company' s stock is held by a small number of large investors and significant sales of its common stock by one or more of these holders could ~~cause~~ **adversely affect** the Company' s stock price ~~to fall, which could cause investors to lose all or a portion of their investment in its stock~~ . As of December 31, ~~2022~~ **2023** , the Company' s ~~ten~~ **25** largest holders of common stock were ~~institutional~~ investors who held approximately ~~62~~ **66** % of the outstanding shares of common stock in the aggregate ~~, with BlackRock Fund Advisors being the largest shareholder with approximately 16 % of the Company' s outstanding shares of common stock~~ . These investors **have sold and** may sell **some or all of** their shares at any time for a variety of reasons, and such sales could depress the market price of the Company' s common stock, which could **adversely affect** ~~cause investors to lose all or a portion of their~~ -- **the** ~~investment in its~~ **Company' s** stock **price** . In addition, any such sales of the Company' s common stock by these entities could also impair its ability to raise capital through the sale of additional equity securities. **Our** ~~The Company' s stock price may fluctuate significantly in response to numerous factors such as: the overall performance of the equity markets and the economy as a whole; changes in the financial projections the Company or third parties may provide to the public or the Company' s failure to meet these projections; actual or anticipated changes in its growth rate relative to that of its competitors; failure of securities analysts to maintain coverage of the Company; changes in financial estimates by securities analysts who follow the Company or its failure to meet these estimates or the expectations of investors; and sales of share of the Company' s common stock by Sleep Number or its shareholders particularly sales by its directors, executive officers and significant shareholders or the perception that these sales could occur. Risks Related to Environmental, Social and Governance Matters The Company' s priorities and progress with respect to Environmental, Social and Governance (ESG) matters may expose it to numerous risks, including risks to its reputation and stock price, and may~~

~~impose additional costs on the Company. There has been an increased focus on the Company' s ESG practices within the general markets. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, climate change, health and safety, supply chain management, diversity, equity and inclusion, labor conditions and human rights, both in its own operations and in the Company' s supply chain. Sleep Number has established and plans to further establish priorities related to ESG matters. These priorities reflect the Company' s plans and aspirations and are not guarantees that it will be able to achieve them. The Company' s efforts to accomplish and accurately report its progress present numerous operational, reputational, financial, legal, and other risks, any of which could have a material adverse impact, including on the Company' s reputation, stock price, and results of operation. Sleep Number could also incur additional costs and require additional resources to implement various ESG practices to make progress against its priorities and to monitor and track its performance with respect to such priorities. The standards for tracking and reporting on ESG matters are relatively new, have not been formalized and continue to evolve. Collecting, measuring, and reporting ESG information and metrics can be difficult and time consuming. While Sleep Number has taken steps to evolve its ESG priorities and related disclosures, including through implementing enhanced data collection methods and reporting certain data under recognized ESG reporting frameworks, the Company' s ESG practices may not meet the standards of all its stakeholders and advocacy groups may campaign for further changes. Additionally, the Company' s selected disclosure framework or standards may need to be changed from time to time, which may result in a lack of consistent or meaningful comparative data from period to period. In addition, the Company' s interpretation of reporting frameworks or standards may differ from those of others and such frameworks or standards may change over time, any of which could result in significant revisions to the Company' s ESG priorities or reported progress. 27 | 2022 FORM 10- KSLEEP NUMBER CORPORATION The Company' s ability to achieve any ESG- related objective is subject to numerous risks, many of which are outside of its control, including: the availability and cost of low- or non- carbon- based energy sources and technologies, evolving regulatory requirements affecting ESG standards or disclosures, the availability of vendors and suppliers that can meet its sustainability, diversity and other standards, and the availability of raw materials that meet and further the Company' s sustainability objectives. If its ESG practices do not meet evolving standards or the Company' s priorities, then the Company' s reputation, its ability to attract or retain employees and its competitiveness, including as an investment and~~ business ~~partner,~~ could be negatively **affected as a result of** ~~impacted. Furthermore, if Sleep Number' s competitors' ESG performance is perceived to be better than~~ the **actions of activists. The** Company ~~' s, potential or current customers and investors may elect to do business with its competitors instead, and the Company' s ability to attract or retain employees~~ could be negatively **affected as a result of shareholder activism, which could cause the Company to incur significant expense, hinder execution of its business strategy, and** ~~impacted~~ -- **impact the trading value of its securities. In the past, the Company has been the subject of shareholder activism, and it is subject to the risks associated with any ongoing or future such activism. Shareholder activism, including potential proxy contests, requires significant time and attention by management and the Board, potentially interfering with the Company' s ability to execute its strategic plan** . The Company **may be required** ~~' s failure, or perceived failure,~~ to **incur significant legal fees** ~~pursue or fulfill its priorities~~ and ~~objectives or to satisfy various reporting standards within the~~ **other** ~~timelines~~ **expenses related to activist shareholder matters, and the attention of management may be diverted by such activism. While the Company welcomes shareholders' constructive input,** ~~the~~ **there can be no assurance that shareholder actions would not result in negative impacts to the** Company **. Any of these impacts** ~~announces, or at all,~~ could **materially** ~~also expose the Company to government enforcement actions~~ and ~~private litigation. Climate change and legal or regulatory responses may~~ adversely affect the Company' s business **, and** ~~operations~~ - **operating results,** and ~~financial condition. Climate change presents various near~~ **the Company' s stock price has experienced fluctuation** and ~~long- term risks that may~~ **could continue to experience fluctuation or otherwise be** adversely ~~impact the Company' s business. The enactment of new laws and regulations to address or limit the effects of climate change, or changes to existing laws and regulations, could mandate more restrictive standards or require such changes on a more accelerated time frame. The consequences of climate change and the ensuing governmental regulations could disrupt the Company' s operations or harm its ability to source necessary materials and components and manufacture its products, which may adversely affect~~ **affected by** ~~the Company' s financial condition. If public perception of Sleep Number' s compliance with laws and regulations related to climate change is negative, it could adversely affect the Company' s business, reputation and~~ shareholder ~~perception~~ **activism** . ~~Adverse publicity or climate- related litigation that impacts the Company could also have a negative impact on its business. Extreme weather, natural disasters, power outages, or other unexpected events could result in physical damage to and complete or partial closure of one or more of the Company' s manufacturing, distribution centers or other facilities or those of its suppliers, temporary or long- term disruption in its supply chain or logistics, disruption of or harm to the Company' s workforce and / or disruption of its ability to deliver products to customers. Current or future insurance arrangements may not provide protection for costs that may arise from such events, particularly if such events are catastrophic in nature or if multiple such events occur. Climate change may also subject the Company' s business to significant increases or volatility in the prices of certain commodities, including but not limited to electronic componentry, fuel, oil, natural gas, rubber, cotton, plastic resin, corrugate, plywood, steel and chemical ingredients used to produce foam, as well as third- party logistic costs. Further, the long- term effects of climate change on general economic conditions and the Company' s industry in particular are unclear, and changes in the supply, demand, or available sources of energy and the regulatory and other costs associated with energy production and delivery may affect the availability or cost of goods and services, including natural resources, necessary to run its business. Any long- term disruption in the Company' s ability to service its customers from one or more manufacturing, distribution centers or other facilities could have an adverse effect on the Company' s operations. New climate disclosure rules, if adopted by the SEC, may increase the Company' s costs and litigation risks, which would materially and adversely affect its future results of operations and financial condition. During fiscal 2022, the SEC proposed new climate disclosure rules, which if adopted, would require new climate-~~

~~related disclosures in SEC filings, including certain climate- related metrics and greenhouse gas emissions data, information about climate- related targets and goals, transition plans, if any, and extensive attestation requirements. In addition to requiring filers to quantify and disclose direct emissions data, the new rules also would require disclosure of climate impact arising from the operations and uses by the filer' s business partners and contractors and end- users of the filer' s products and / or services. The Company is currently assessing the impact of the new rules, if adopted as proposed, but at this time, it cannot predict the costs of implementation or any potential adverse impacts resulting from the new rules. However, Sleep Number may incur increased costs relating to the assessment and disclosure of climate- related risks and increased litigation risks related to disclosures made pursuant to the new rules, either of which could materially and adversely affect the Company' s future results of operations and financial condition. 28 | 2022 FORM 10- KSLEEP NUMBER CORPORATION General Risks~~ The timing and amount of the Company' s share repurchases is subject to a number of uncertainties. ~~The~~ **While the Company currently has no plans to resume share repurchases, the** Company' s Board has authorized management to repurchase up to $ 600 million worth of shares **. As** ~~, and as~~ of December ~~31~~ **30** , ~~2022~~ **2023** , the remaining authorization under that program was $ 348 million. The Inflation Reduction Act of 2022 (the Act) ~~imposes~~ **imposed** a non- deductible 1 % excise tax on net repurchases of shares, with some exceptions. The excise tax **was** ~~will be~~ imposed on transactions **occurring** ~~that occur~~ after December 31, 2022. The imposition of the excise tax ~~will increase~~ **increased** the cost to the Company of making repurchases and may cause it to reduce the number of shares repurchased **when or if the Company were to resume share repurchases** . **28 | 2023 FORM 10- KSLEEP NUMBER CORPORATION** Other factors that may influence the Company' s decision to utilize, limit, suspend or delay future share repurchases include market conditions, the trading price of its common stock, the nature and magnitude of other investment opportunities available to the Company from time to time, and the amount of available cash. **If securities analysts do not publish, or cease publishing, research or reports about the Company, the Company' s business, or if they change their recommendations regarding the Company' s stock adversely, the price of the Company' s common stock and trading volume could decline. The trading market for the Company' s common stock could be influenced by any research and reports that securities or industry analysts publish about the Company, the Company' s business or the Company' s market. If one or more of the analysts who covers the Company downgrades the Company' s common stock or publishes inaccurate or unfavorable research about the Company, the Company' s business or the Company' s market, the price of the Company' s common stock would likely decline. If one or more of these analysts ceases coverage of the Company or fails to publish reports on the Company regularly, demand for the Company' s common stock could decrease, which could cause the price of the Company' s common stock and trading volume to decline. Risks Related to Environmental, Social and Governance Matters The Company' s priorities and progress with respect to Environmental, Social and Governance (ESG) matters may expose it to numerous risks, including risks to its reputation and stock price, and may impose additional costs on the Company. There has been an increased focus on the Company' s ESG practices within the general markets. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, climate change, health and safety, supply chain management, diversity, equity and inclusion, labor conditions and human rights, both in their own operations and in the Company' s operations and supply chain. Sleep Number current ESG priorities reflect the Company' s strategic plans and aspirations and are not guarantees that it will be able to achieve them. The Company' s efforts to accomplish and accurately report its progress present numerous operational, reputational, financial, legal, and other risks, any of which could have a material adverse impact, including on the Company' s reputation, stock price, and results of operation. Sleep Number could also incur additional costs and require additional resources to implement various projects that impact the progress made against its priorities and hurt its ability to monitor and track its performance with respect to such priorities. The standards for tracking and reporting on ESG matters are relatively new, have not been formalized and continue to evolve. Collecting, measuring, and reporting ESG information and metrics can be difficult and time consuming. While Sleep Number has taken steps to evolve its priorities and related disclosures, including through implementing enhanced data collection methods and reporting certain data under recognized reporting frameworks and standards, the Company' s practices may not meet the standards of all of its stakeholders and advocacy groups may campaign for further changes. Additionally, the Company' s selected disclosure framework or standards may need to be changed from time to time, which may result in a lack of consistent or meaningful comparative data from period to period. Further, the Company' s interpretation of reporting frameworks or standards may differ from those of others and such frameworks or standards may change over time, any of which could result in significant revisions to the Company' s ESG priorities or reported progress. The Company' s ability to achieve any ESG- related objective is subject to numerous risks, many of which are outside of its control, including: the availability and cost of low- or non- carbon- based energy sources and technologies, evolving regulatory requirements affecting relevant standards or disclosures, the availability of vendors and suppliers that can meet its sustainability, diversity and other standards, and the availability of raw materials that meet and further the Company' s sustainability objectives. If its ESG practices do not meet evolving standards or the Company cannot make progress on its priorities, then the Company' s reputation, its ability to attract or retain employees and its competitiveness, including as an investment and business partner, could be negatively impacted. Furthermore, if Sleep Number' s competitors' ESG performance is perceived to be better than the Company' s, potential or current customers and investors may elect to do business with its competitors instead, and the Company' s ability to attract or retain employees could be negatively impacted. The Company' s failure, or perceived failure, to pursue or fulfill its priorities and objectives or to satisfy various reporting standards within the timelines the Company announces, or at all, could also expose the Company to government enforcement actions and private litigation. 29 | 2023 FORM 10- KSLEEP NUMBER CORPORATION Climate change and legal or regulatory responses may adversely affect the Company' s business, operations and financial condition. Climate change presents various near and**

long- term risks that may adversely impact the Company' s business. The enactment of new laws and regulations to address or limit the effects of climate change, or changes to existing laws and regulations, could mandate more restrictive standards or require such changes on a more accelerated time frame. The consequences of climate change and the ensuing governmental regulations could disrupt the Company' s operations or harm its ability to source necessary materials and components and manufacture its products, which may adversely affect the Company' s financial condition. If public perception of Sleep Number' s compliance with laws and regulations related to climate change is negative, it could adversely affect the Company' s business, reputation and shareholder perception. Adverse publicity or climate- related litigation that impacts the Company could also have a negative impact on its business. Extreme weather, natural disasters, power outages, or other unexpected climate- related events could result in physical damage to and complete or partial closure of one or more of the Company' s manufacturing, distribution centers or other facilities or those of its suppliers, temporary or long- term disruption in its supply chain or logistics, disruption of or harm to the Company' s workforce and / or disruption of its ability to deliver products to customers. Current or future insurance arrangements may not provide protection for costs that may arise from such events, particularly if such events are catastrophic in nature or if multiple such events occur. Climate change may also subject the Company' s business to significant increases or volatility in the prices of certain commodities, including but not limited to electronic componentry, fuel, oil, natural gas, rubber, cotton, plastic resin, corrugate, plywood, steel and chemical ingredients used to produce foam, as well as third- party logistic costs. Further, the long- term effects of climate change on general economic conditions and the Company' s industry in particular are unclear, and changes in the supply, demand, or available sources of energy and the regulatory and other costs associated with energy production and delivery may affect the availability or cost of goods and services, including natural resources, necessary to run its business. Any long- term disruption in the Company' s ability to service its customers from one or more manufacturing, distribution centers or other facilities could have an adverse effect on the Company' s operations. New climate disclosure rules passed by California, as well as those proposed by the SEC, will increase the Company' s compliance costs and may subject the Company to litigation or other risks, which would materially and adversely affect its future results of operations and financial condition. During fiscal 2022, the SEC proposed new climate disclosure rules, which if adopted, would require new climate- related disclosures in SEC filings, including certain climate- related metrics and greenhouse gas emissions data, information about climate- related targets and goals, transition plans, if any, and extensive attestation requirements. During fiscal 2023, California passed new climate disclosure rules similar to those proposed by the SEC and that currently would require the Company to begin reporting on such climate- related data for its fiscal year 2025. In addition to requiring filers to quantify and disclose direct emissions data, the new California rules and the proposed SEC rules also would require disclosure of climate impact arising from the operations and uses by the filer' s business partners and contractors and end- users of the filer' s products and / or services. The Company is currently assessing the impact of the new California rules as well as the proposed SEC rules, but at this time, it cannot predict the costs of implementation or any specific potential adverse impacts resulting from the new rules. However, Sleep Number will incur increased costs relating to the collection, review and assurance for new required disclosures of climate metrics and climate- related risks and may experience increased litigation, regulatory, business, reputation, or other risks related to disclosures made pursuant to the new rules. Either the increased cost to comply with the new rules or the potential for increased litigation and other risks could materially and adversely affect the Company' s future results of operations and financial condition.