Proxy Statement and Annual Report

Select Comfort Corporation

2014 Annual Meeting

Dear Shareholders,

At Sleep Number, our mission is to improve lives by individualizing sleep experiences. In 2013, our products and services improved the lives of nearly 550,000 customers, resulting in more than 8.3 million total lives improved since the company was founded in 1987. The customer is at the center of our culture and strategy, both of which are directed at delivering meaningful consumer benefits and creating long-term shareholder value by strengthening the competitive advantages associated with our vertically integrated business model.

In a year marked by a demanding combination of a changing consumer, an intensely price-driven competitive environment and our internal media buying execution challenges, we made significant strategic advancements in our transformation to becoming the undisputed leader in the broader sleep category we are creating. While our bottom line was pressured in 2013, we expect our investments and initiatives to strengthen our consumer value equation, as well as our long-term competitive position.

Our net sales grew 3 percent to $960 million, up from $935 million in 2012. Adjusted EPS was $1.07, down from $1.43 in 2012. Our adjusted operating margin was $90.2 million or 9.4 percent of net sales. We generated operating cash flow of $88 million, invested $77 million in capital expenditures, and repurchased $42 million of our stock. We maintain a strong balance sheet, ending the year with a cash and securities balance of $145 million, which enables us to self-fund our growth investments.

As we transition the company for sustained long-term profitable growth, we are strengthening our primary competitive advantages: proprietary products, exclusive distribution and end-to-end customer experience.

Our leadership role in product innovation has never been stronger. We've continued to prioritize and invest in consumer insights and R&D, while accelerating our product roadmap with the acquisition of Comfortaire and an investment in a Silicon Valley strategic technology partner. The result of these investments has been the introduction of a series of robust innovations over the past twelve months, beginning with the Sleep Number® DualTemp™ layer. The DualTemp™ layer uses active air to solve one of the most common sleep issues – sleeping too hot or too cold, and like the Sleep Number® bed, the DualTemp™ layer is adjustable on each side. We also improved our core Sleep Number® mattress line with Advanced DualAir™ technology and a distinctive FlexTop™ mattress design. With our redesigned FlexFit™ adjustable base series, we introduced new consumer benefits like Partner Snore™ technology and soft under-bed lighting to find your way in the dark. And in January of 2014, we launched "*probably the best bed in the world*", the Sleep Number® x12 bed with SleepIQ™ technology at the International Consumer Electronics Show (CES).

The Sleep Number x12 bed integrates four proprietary technologies with our exclusive Advanced DualAir™ technology to provide customers with knowledge and insights about their sleep so they can make adjustments to realize the best sleep possible. SleepIQ™ technology tracks your sleep by measuring your average breathing, movement and average heart rate. Your SleepIQ™ score shows how you slept and adjustments you can make to improve your sleep. These adjustments may include adjusting your individual firmness – your Sleep Number® setting, or changing your daily routine.

The introduction of SleepIQ™ technology is a breakthrough evolution of our trademark commitment to improving the lives of our customers by providing *individualized comfort*, and it places us on the leading edge of consumer trends. With SleepIQ™ technology, we are entering the digital world by empowering increasingly data-driven consumers with the ability to know and act upon information about their own sleep in a simple and productive manner. SleepIQ™ technology gives us the ability to continually improve and upgrade one of the most static products in the home – the mattress – in a manner that is seamless to our customer. SleepIQ™ technology works directly with our proprietary Advanced DualAir™ technology, as we build a simple, integrated platform across the entire Sleep Number® product portfolio.

Our target customer, who is four times larger than our historical back pain-challenged target customer, is at the center of these consumer trends. This broader target is younger and includes customers who understand and value sleep as an important component of health and wellness. This consumer is in their prime mattress buying years, and is willing to trade up for products that offer compelling value. We are dedicated to continually innovating our products and services to offer customers the high quality, durability, design and meaningful benefits that they have come to expect from Sleep Number.

Our breakthrough product innovations were recognized with numerous national awards, including several awards at CES for the Sleep Number® x12 bed with SleepIQ™ technology. In addition, a leading national consumer magazine rated the Sleep Number Innovation series i8 as its top rated bed and the only mattress that aced their back-support test. These product innovations are a core part of our strategy to address our largest opportunity – increasing brand awareness.

During 2013, to support our product innovation and increase brand awareness, we developed a new advertising campaign called 'Know Better Sleep(SM).' This work is the most tested creative we've ever produced, and testing results suggest that this campaign can break through and increase brand awareness with our target customer in a cluttered marketplace and drive traffic to our exclusive distribution. We've recently launched this new advertising with our product introductions – early results are promising.

Our strategy and national exclusive distribution positions our stores as a destination for people who care about their sleep. We provide a value added retail experience with impeccable service from passionate sleep professionals who are tenured and highly trained. Therefore, our stores are extremely productive with industry leading average company controlled sales per store of over $2 million. This is a key differentiator, allowing us to benefit from our non-price position as we build long-term relationships with our customers. In 2013, we opened 71 new stores and remodeled 42 of our existing stores to improve our customers' experiences and the convenience of our locations.

In conclusion, we expect our product innovations and initiatives will take time to mature in the current consumer environment – 2014 will be a year of continued transition as we further strengthen our competitive advantages and operational efficiencies. We are confident that we are working on the right things to continue to meet and exceed our customers' expectations, become the leader in sleep, and thus deliver both short and long-term performance.

Thank you to our brand ambassadors for your commitment to our vision of *becoming one of the world's most beloved brands by delivering unparalleled sleep experiences*. And, thank you to our customers and shareholders for your continued advocacy of our value added products and long-term growth strategy.

Sleep well and dream big.

Shelly Ibach

Shelly Ibach, Sleep Number® setting 35
President and Chief Executive Officer

9800 59th Avenue North
Plymouth, Minnesota 55442

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
MAY 14, 2014

TO THE SHAREHOLDERS OF SELECT COMFORT CORPORATION:

Select Comfort Corporation will hold its Annual Meeting of Shareholders at **9:00 a.m.** Central Time on **Wednesday, May 14, 2014**, at the **Millennium Minneapolis Hotel** located at **1313 Nicollet Mall, Minneapolis, Minnesota 55403**. The purposes of the meeting are to:

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

2. Cast an advisory vote on executive compensation; and

3. Cast an advisory vote on the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the 2014 fiscal year ending January 3, 2015.

Shareholders of record at the close of business on March 19, 2014 will be entitled to vote at the meeting and any adjournments thereof. A Notice of Internet Availability of Proxy Materials will be mailed to certain shareholders beginning on or about April 4, 2014. The Notice of Internet Availability of Proxy Materials contains instructions on how to access our Proxy Statement and Annual Report and how to vote your shares. All other shareholders will receive the proxy materials by mail. Please be sure to vote your shares in time for our May 14, 2014 meeting date.

Your attention is directed to the Proxy Statement accompanying this Notice for a more complete statement of the matters to be considered at the meeting. A copy of the Annual Report for the year ended December 28, 2013 also accompanies this Notice.

By Order of the Board of Directors,

Mark A. Kimball

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

April 4, 2014
Plymouth, Minnesota

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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.

sleep number

9800 59th Avenue North
Plymouth, Minnesota 55442

PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS

May 14, 2014

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 2014 Annual Meeting of Shareholders.

When and where is the Annual Meeting and who may attend?

The Annual Meeting will be held at 9:00 a.m. Central Time on Wednesday, May 14, 2014, at the Millennium Minneapolis Hotel located at 1313 Nicollet Mall, Minneapolis, Minnesota 55403. Shareholders who are entitled to vote may attend the meeting.

Who is entitled to vote?

Shareholders of record at the close of business on March 19, 2014 (the "Record Date") are entitled to vote at the meeting. As of the Record Date, there were 54,368,434 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.

If I am eligible to vote and want to attend the Annual Meeting, what do I need to bring?

Shareholders of Record. If you are a Shareholder of Record and plan to attend the meeting, please bring the notice of the meeting and photo identification. Shareholders of Record who do not present the notice of the meeting will be admitted only upon verification of ownership at the meeting.

Beneficial Owners. If you are a Beneficial Owner and plan to attend the meeting, you must present proof of ownership of the Company's common stock as of the Record Date, such as a brokerage account statement, and photo identification. If you are a Beneficial Owner and wish to vote at the meeting, you must also bring a legal proxy from your bank, broker or other holder of record.

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 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 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 or other holder of record how to vote your shares by using the voting instructions you received.

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, 2014, we began 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, 2014.

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?

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 three items to be voted on at the meeting:

- The election of three persons to serve as directors for three-year terms;
- An advisory vote on executive compensation; and
- An advisory vote on the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending January 3, 2015.

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 on executive compensation) and proposal 3 (the advisory vote on ratification of the selection of independent auditors), you may:

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

How does the Board recommend that I vote?

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

- **"For"** the election of each of the nominees for director;
- **"For"** the advisory vote on executive compensation; and
- **"For"** the advisory vote on the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending January 3, 2015.

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" proposal 2 (the advisory vote on executive compensation) and "For" proposal 3 (the advisory vote on ratification of the selection of independent auditors).

Proxies marked "Withhold" on proposal 1 (election of directors), or "Abstain" on proposal 2 (the advisory vote on executive compensation) or proposal 3 (the advisory vote on ratification of 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 are a Beneficial Owner and hold your shares in "street name," such as through a broker, 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. 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 and 2. Brokers will have discretionary authority to vote on proposal 3 because the ratification of the appointment of independent auditors is considered a routine matter. If the broker votes on proposal 3 (the advisory vote on ratification of 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 proposals 1 and 2.

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, each of the proposals 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.

Please note that each of proposals 2 and 3 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 future 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 27,184,218 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 (or is left blank) or reflects a "broker non-vote" on a matter.

How do I vote my shares without attending the meeting?

If you are a Shareholder of Record, you may vote by granting a proxy. If you are a Beneficial Owner of shares held in street name, such as through a bank, broker or other holder of record, you may vote by submitting voting instructions to your bank, broker or other holder of record. In most circumstances, you may vote:

- *By Internet or Telephone* — If you have Internet or telephone access, you may submit your proxy by following the voting instructions on the proxy card or Notice no later than 11:59 p.m., Eastern Daylight Time, on May 13, 2014. If you vote by Internet or telephone, you do *not* need to return your proxy card.

- *By 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. You should sign your name exactly as it appears on the proxy card. If you are signing for jointly held shares, all joint owners should sign. If you are signing in a representative capacity (for example, as guardian, executor, trustee, custodian, attorney or officer of a corporation), you should indicate your name and title or capacity.

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) or proposal 2 (the advisory vote 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, their shares will not be voted in connection with proposals 1 and 2. Proposal 3 (the advisory vote on ratification of 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 3, 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 14, 2014 meeting date.

How do I vote my shares in person at the meeting?

If you are a Shareholder of Record and prefer to vote your shares at the meeting, bring the accompanying proxy card (if you received a paper copy of the proxy statement) and photo identification. If you are a Beneficial Owner holding shares in "street name," such as through a bank, brokerage account, trust or other nominee, you may vote the shares only if you obtain a signed proxy from the record holder (i.e., the bank, broker, trust or other nominee who is the record holder of the shares) giving you the right to vote the shares.

Even if you plan to attend the meeting, we encourage you to vote your shares in advance by Internet, telephone or mail so that your vote will be counted in the event you are unable to attend.

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 13, 2014;

- Submitting to the Corporate Secretary before 6:00 p.m., Eastern Daylight Time, on May 13, 2014, 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 13, 2014; or

- Appearing at the Annual Meeting as a shareholder of record or with a legal proxy (for shares held in street name) and filing written notice of revocation with the Corporate Secretary.

Attendance at the Annual Meeting will not, by itself, revoke your proxy. For shares you hold in street name, such as through a brokerage account, bank, trust or other nominee, you would need to obtain a legal proxy from your broker or nominee and bring it to the meeting in order to revoke a prior proxy and to vote those shares at the Annual Meeting. Prior to the meeting, you may revoke your proxy by contacting your broker or nominee and following their instructions for revoking your proxy.

Can I receive future proxy materials electronically?

Yes. If you are a Shareholder of Record and you have 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 significant printing, postage and processing costs.

Who bears the proxy solicitation costs?

The cost of soliciting proxies, including the furnishing of proxy materials on the Internet and mailing of proxy materials to shareholders who request them, will be borne by Select Comfort. Our directors, officers and regular employees may, without compensation other than their regular compensation, solicit proxies by telephone or personal conversation. We may reimburse brokerage firms and others for expenses in 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 22, 2014 (unless another date is indicated) by (a) each director and each executive officer named in the Summary Compensation Table on page 43 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.

	Shares of Common Stock Beneficially Owned [1]	
Name	**Amount**	**Percent of Class**
Daniel I. Alegre [2]	2,080	*
Andrea L. Bloomquist [3]	53,067	*
Andrew P. Carlin [4]	59,349	*
Stephen L. Gulis, Jr. [2][5]	120,108	*
Michael J. Harrison [2][5]	20,597	*
Shelly R. Ibach [6]	247,375	*
David T. Kollat [2]	193,004	*
Brenda J. Lauderback [2][5]	106,114	*
Kathleen L. Nedorostek [2][5]	17,757	*
Michael A. Peel [2]	105,504	*
Kathryn V. Roedel [7]	161,241	*
Wendy L. Schoppert [8]	80,906	*
Jean-Michel Valette [2]	270,601	*
All directors and executive officers as a group (15 persons) [9]	1,731,330	3.1%
FMR LLC [10]	5,826,340	10.7%
Putnam Investments, LLC [11]	5,616,116	10.3%
BlackRock, Inc. [12]	4,869,944	8.9%
State Street Corporation [13]	3,969,620	7.3%
Disciplined Growth Investors, Inc. [14]	3,966,691	7.3%
The Vanguard Group, Inc. [15]	3,431,479	6.3%

* Less than 1% of the outstanding shares.

(1) 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: Ms. Bloomquist (22,292 shares); Mr. Carlin (29,120 shares); Mr. Gulis (61,125 shares); Mr. Harrison (3,469 shares); Ms. Ibach (120,569 shares); Dr. Kollat (72,375 shares); Ms. Lauderback (83,625 shares); Ms. Nedorostek (5,875 shares); Mr. Peel (42,988 shares); Ms. Roedel (91,625 shares); Ms. Schoppert (25,925 shares); and Mr. Valette (72,375 shares).

(2) Includes 2,080 shares held under a restricted stock grant that have not vested.

(3) Includes 22,070 shares held under restricted or performance stock grants that have not vested.

(4) Includes 24,216 shares held under restricted or performance stock grants that have not vested.

(5) The Select Comfort Corporation Amended and Restated 2010 Omnibus Incentive 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 3,532 RSUs that were deferred. Mr. Harrison's amount includes 3,080 shares that were deferred in lieu of director fees. Ms. Lauderback's amount includes 3,532 RSUs that were deferred. Ms. Nedorostek's amount includes 6,270 shares that were deferred in lieu of director fees.

(6) Includes 68,109 shares held under restricted or performance stock grants that have not vested.

(7) Includes 37,573 shares held under performance stock grants that have not vested.

(8) Ms. Schoppert resigned from the Company on February 21, 2014.

(9) Includes an aggregate of 744,523 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 208,212 shares held under restricted or performance stock grants that have not vested. Also includes 59,096 shares that were deferred by non-employee directors in lieu of director fees and 7,064 RSUs that were deferred by non-employee directors.

(10) FMR LLC reported in a Schedule 13G/A filed with the Securities and Exchange Commission on February 10, 2014 that as of January 31, 2014 it beneficially owned 5,826,340 shares of Common Stock of Select Comfort Corporation and had sole power to vote or to direct the vote on 1,093,330 shares and sole dispositive power on 5,826,340 shares. The business address of FMR LLC is 245 Summer Street, Boston, Massachusetts 02210.

(11) Putnam Investments, LLC reported in a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2014 that as of December 31, 2013 it beneficially owned 5,616,116 shares of Common Stock of Select Comfort Corporation and had sole power to vote on 82,754 shares and sole dispositive power on 5,616,116 shares. The business address of Putnam Investments, LLC is One Post Office Square, Boston, Massachusetts 02109.

(12) BlackRock, Inc. reported in a Schedule 13G/A filed with the Securities and Exchange Commission on January 30, 2014 that as of December 31, 2013 it beneficially owned 4,869,944 shares of Common Stock of Select Comfort Corporation and had sole power to vote or to direct the vote on 4,700,939 shares and sole dispositive power on 4,869,944 shares. The business address of BlackRock, Inc. is 40 East 52nd Street, New York, New York 10022.

(13) State Street Corporation reported in a Schedule 13G filed with the Securities and Exchange Commission on February 4, 2014 that as of December 31, 2013 it beneficially owned 3,969,620 shares of Common Stock of Select Comfort Corporation and had shared voting power on 3,969,620 shares and shared dispositive power on 3,969,620 shares. The business address of State Street Corporation is State Street Financial Center, One Lincoln Street, Boston, Massachusetts 02111.

(14) Disciplined Growth Investors, Inc. reported in a Schedule 13F filed with the Securities and Exchange Commission on February 12, 2014 that as of December 31, 2013 it beneficially owned 3,966,691 shares of Common Stock of Select Comfort Corporation, had sole voting power with respect to 3,065,129 shares and no voting power with respect to 901,562 shares. The business address of Disciplined Growth Investors, Inc. is 100 South Fifth Street, Suite 2100, Minneapolis, Minnesota 55402.

(15) The Vanguard Group, Inc. reported in a Schedule 13G/A filed with the Securities and Exchange Commission on February 11, 2014 that as of December 31, 2013 it beneficially owned 3,431,479 shares of Common Stock of Select Comfort Corporation and had sole power to vote or to direct the vote on 82,513 shares, shared dispositive power on 77,213 shares and sole dispositive power on 3,354,266 shares. The business address of The Vanguard Group, Inc. is 100 Vanguard Blvd, Malvern, Pennsylvania 19355.

ELECTION OF DIRECTORS

(Proposal 1)

Nomination

Article XIV of our 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.

The Board currently consists of nine members, with the terms of three of our directors expiring at the 2014 Annual Meeting. The Board has nominated **Kathleen L. Nedorostek, Michael A. Peel** and **Jean-Michel Valette** to serve as directors, each for a term of three years expiring at the 2017 Annual Meeting, or until their successors are elected and qualified. Ms. Nedorostek has served on our Board since 2011; 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, 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 Nominees and Other Directors

The following table sets forth certain information, as of March 1, 2014, that has been furnished to us by each director and each person who has been nominated by the Board to serve as a director of our company.

Name of Nominee	Age	Principal Occupation	Director Since
Nominees for election this year to three-year terms expiring in 2017:			
Kathleen L. Nedorostek [1]	61	Group President, Global Footwear and Accessories at the Jones Group, Inc.; Former President, North American Wholesale and Global Licensing divisions of Coach Inc.; Former President and Chief Operating Officer of Natori, a privately owned lingerie and accessories company.	2011
Michael A. Peel [2][3]	64	Vice President for Human Resources and Administration of Yale University; Former Executive Vice President of Human Resources and Global Business Services at General Mills, Inc.; Also formerly served in various executive capacities with PepsiCo, Inc.	2003
Jean-Michel Valette [1]*	53	Chairman of the Board of Directors of Select Comfort Corporation; Former Chairman of the Board of Directors of Peet's Coffee and Tea, Inc.; Also a director of The Boston Beer Company.	1994
Directors not standing for election this year whose terms expire in 2015:			
Daniel I. Alegre [1]	45	President of Global Partner Business Solutions for Google, Inc.; Former Vice President of Business Development for e-commerce at Bertelsmann AG; Also former Vice President of BMG Music, a subsidiary of Bertelsmann AG.	2013
Stephen L. Gulis, Jr. [1][2]	56	Independent financial, operations and management advisor; Former Executive Vice President and Chief Financial Officer, Wolverine World Wide, Inc.; Also a director of Independent Bank Corporation.	2005
Brenda J. Lauderback [2][3]	63	Former President of the Retail and Wholesale Group for Nine West Group, Inc.; Also a director of Big Lots, Inc., Denny's Corporation and Wolverine World Wide, Inc.	2004

Directors not standing for election this year whose terms expire in 2016:

Michael J. Harrison [1][3]	53	Independent business and management consultant; Former Chief Brand Officer of Timberland, a leading brand of outdoor footwear, apparel and gear; Also formerly held various marketing, operations and general management positions with Proctor & Gamble in Europe, the U.S., Australia and Asia.	2011
Shelly R. Ibach	54	President and Chief Executive Officer of Select Comfort Corporation; Former Senior Vice President and General Merchandise Manager for Macy's home division and Marshall Fields Department Stores – Target Corporation.	2012
David T. Kollat [2][3]	75	President of 22 Inc.; Former Executive Vice President of Marketing for L Brands, Inc. and former President of Victoria's Secret Catalogue; Also a director of L Brands, Inc. and Wolverine World Wide, Inc.	1994

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(1) Member of the Audit Committee
(2) Member of the Management Development and Compensation Committee
(3) Member of the Corporate Governance and Nominating Committee
* In his capacity as non-executive Chairman of the Board, Mr. Valette may attend and vote at any Committee meeting.

Additional Information about Nominees and Other Directors

Kathleen L. Nedorostek has served as a member of our Board of Directors since May 2011. Since October 2012, Ms. Nedorostek has served as the Group President, Global Footwear and Accessories at the Jones Group, Inc., a leading global designer, marketer and wholesaler of brands in apparel, footwear and accessories. Prior to joining The Jones Group, Ms. Nedorostek served as President of the North American Wholesale and Global Licensing divisions of Coach Inc. from 2003 to 2012, with responsibility for Coach's department and specialty store businesses throughout North America and licensed businesses worldwide. Ms. Nedorostek joined Coach from Natori, a privately owned lingerie company, where she held the position of President and Chief Operating Officer from 1998 to 2003. Before joining Natori, Ms. Nedorostek was President of cK Calvin Klein Handbags and Footwear, a division of Nine West, from 1995 to 1998. Previously, Ms. Nedorostek was Chief Operating Officer for Judith Leiber and has held senior management positions at Saks Fifth Avenue.

We believe Ms. Nedorostek is qualified to serve on our Board due to her extensive practical and strategic experience in general management of high-end, multi-national branded consumer products companies.

Michael A. Peel has served as a member of our Board of Directors since February 2003. In October 2008, Mr. Peel was named an Officer of Yale University and is currently Vice President for Human Resources and Administration. Previously Mr. Peel spent 17 years at General Mills, a manufacturer and marketer of consumer food products, where he was last Executive Vice President of Human Resources and Global Business Services; Mr. Peel originally joined General Mills as Senior Vice President, Worldwide Human Resources in 1991. From 1977 to 1991, Mr. Peel served in various capacities for PepsiCo, Inc., including as Senior Vice President, Human Resources for PepsiCo Worldwide Foods from 1987 to 1991, and as Senior Vice President, Human Resources for the Pepsi-Cola Bottling Group from 1984 to 1987. Mr. Peel also serves as a director of Pier 1 Imports, Inc., a retailer of imported decorative home furnishings and gifts.

We believe Mr. Peel is qualified to serve on our Board because he brings to our Board extensive experience in senior executive management positions with large, consumer-oriented, publicly traded companies, including particularly deep expertise in human resources management, talent development and succession planning, and executive compensation matters.

Jean-Michel Valette has served as a member of our Board of Directors since October 1994 and was elected Chairman of our Board in May 2010. Mr. Valette is an independent adviser to branded consumer companies. From January 2004 to October 2012, he served as Chairman of the Board of Directors of Peet's Coffee and Tea, Inc. Mr. Valette 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. From August 1998 to May 2000, Mr. Valette was President and Chief Executive Officer of Franciscan Estates, Inc., a premium wine company. He was a Managing Director of Hambrecht & Quist LLC, an investment banking firm, from October 1994 to August 1998 and served as a Senior Analyst at Hambrecht & Quist LLC from November 1992 to October 1994. Mr. Valette also serves as Lead Director of The Boston Beer Company.

We believe Mr. Valette is qualified to serve on our Board because he has extensive experience in executive management and in board service and leadership with multiple leading branded consumer growth companies. Mr. Valette also brings significant financial industry experience as well as knowledge of and experience in financial reporting and related processes and corporate governance.

Daniel I. Alegre was appointed to our Board of Directors in May 2013. Since November 2012, Mr. Alegre has served as President of Global Partner Business Solutions for Google, Inc. From 2004 to October 2012, Mr. Alegre held various roles at Google, including Vice President of Google's Latin American and Asia Pacific Business Development and President of Asia Pacific and Japan, overseeing all business operations in the region. Prior to joining Google, Mr. Alegre served as Vice President of Business Development for e-commerce at Bertelsmann AG, a German multinational mass media corporation, spearheading partnerships and acquisitions, and also as Vice President of BMG Music, a subsidiary of Bertelsmann, in Latin America.

We believe Mr. Alegre is qualified to serve on our Board due to his extensive executive experience with leading high technology and e-commerce companies, as well as due to his extensive international business experience.

Stephen L. Gulis, Jr. joined our Board of Directors in July 2005. From April 1996 to October 2007, Mr. Gulis was the Executive Vice President, CFO and Treasurer of Wolverine World Wide, Inc., a global marketer of branded footwear, apparel and accessories (WWW). From October 2007 until his retirement in July of 2008, he served as Executive Vice President and President of Global Operations for WWW. From 1988 to 1996, Mr. Gulis served in various other management capacities with WWW, including CFO, Vice President of Finance, and Vice President Finance and Administration of the Hush Puppies Company. Prior to joining WWW, he served six years on the audit staff of Deloitte & Touche LLP. Mr. Gulis also serves as a director for Independent Bank Corporation. In addition to his board positions, Mr. Gulis serves as an independent financial, operations and management advisor to several privately held organizations.

We believe Mr. Gulis is qualified to serve on our Board because he brings to our Board extensive senior executive experience with a publicly traded consumer products company, including in particular experience as a chief financial officer in financial auditing and reporting and internal controls. Mr. Gulis also brings to our Board experience in the management of information technology, human resources and product sourcing and quality directives.

Brenda J. Lauderback has served on our Board of Directors since February 2004. Ms. Lauderback served as 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. Prior to Nine West, Ms. Lauderback was President of Wholesale and Manufacturing for US Shoe Corporation, where she was responsible for sales, product design and offices in China, Spain and Italy. Ms. Lauderback served 18 years with the Department Store Division of Target Corporation in a variety of capacities, including 13 years as Vice President and General Manager for Shoes, Accessories, Cosmetics, Intimate Apparel and Children's. Ms. Lauderback also serves as a director of Big Lots, Inc., Denny's Corporation and Wolverine World Wide, Inc. Ms. Lauderback also served as a director of Louisiana-Pacific Corporation until May 2005 and Irwin Financial Corporation until September 2009.

We believe Ms. Lauderback is qualified to serve on our Board because she has extensive executive management experience with prominent national retailers. Ms. Lauderback's experience on other boards of directors and board Committees of publicly traded companies also provides our Board with insight into best practices in corporate governance and board processes.

Michael J. Harrison was appointed to our Board of Directors in December 2011. Since November 2012, Mr. Harrison has served as an independent business and management consultant. From 2003 through November of 2012, Mr. Harrison served in a variety of executive positions for Timberland, a leading brand of outdoor footwear, apparel and gear, including as the Chief Brand Officer from July 2009 through November 2012. Mr. Harrison joined Timberland in 2003 as Senior Vice President and General Manager of Timberland's international business and his role was subsequently expanded in 2005 to Senior Vice President of Worldwide Sales and Marketing. In 2006, Mr. Harrison became President of Timberland's CasualGear division and in 2007, was appointed Co-President of the Timberland brand. Prior to joining Timberland, Mr. Harrison was a consultant at Telos Partners Ltd. Prior to his service with Telos, Mr. Harrison served in various marketing, operations and general management capacities with Procter & Gamble - in Europe, U.S., Australia and Asia, including as President of Max Factor KK (Japan) and Vice President of Western Europe Cosmetics & Skin Care products.

We believe Mr. Harrison is qualified to serve on our Board due to his extensive experience in marketing, retailing and general management with various branded consumer products companies, as well as due to his extensive international business experience.

Shelly R. Ibach was appointed to our Board of Directors in February 2012 and has served as our President and Chief Executive Officer since June 2012. 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 Marshall Field's Department Stores – Target Corporation.

We believe Ms. Ibach is qualified to serve on our Board because of her experience in leadership positions with the company as well as her extensive executive management experience with prominent national retail companies. Ms. Ibach also brings to our Board intimate knowledge of our company's operations gained during her seven years in executive management positions with the company.

David T. Kollat has served as a member of our Board of Directors since February 1994. Dr. Kollat has served as President and Chairman of 22 Inc., a research and consulting company for retailers and consumer goods manufacturers, since 1987. From 1976 until 1987, he served in various management capacities for L Brands, a women's apparel retailer, including Executive Vice President of Marketing and President of Victoria's Secret Catalogue. Dr. Kollat also serves as a director of L Brands, Inc. and Wolverine World Wide, Inc. Dr. Kollat served as a director of Big Lots, Inc. until 2012 and has also served on several other public company boards.

We believe Dr. Kollat is qualified to serve on our Board because he provides our Board with many years of experience in management and board service with branded consumer goods manufacturers and retailers. Dr. Kollat also brings insight into best practices in corporate governance and board processes from his extensive experience in board and board Committee service with other publicly traded companies.

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 2013 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
David T. Kollat	Brenda J. Lauderback	Kathleen L. Nedorostek
Michael A. Peel	Ervin R. Shames	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 Web site at *http://www.sleepnumber.com/eng/aboutus/corporategovernance.cfm*. The information contained in or connected to our Web site 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. In his capacity as non-executive Chairman of the Board, Mr. Valette may attend and vote at any committee meeting.

Director	Audit Committee	Management Development and Compensation Committee	Corporate Governance and Nominating Committee
Jean-Michel Valette	X		
Daniel I. Alegre	X		
Stephen L. Gulis, Jr.	Chair	X	
Michael J. Harrison	X		X
David T. Kollat		X	X
Brenda J. Lauderback		X	Chair
Kathleen L. Nedorostek	X		
Michael A. Peel		Chair	X

The Board has determined that each member of the Board committees meets the independence requirements applicable to those committees 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 members of the Audit Committee, Stephen L. Gulis, Jr. and Jean-Michel Valette, 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 either 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 five times during 2013. The Audit Committee met in person or by telephone conference eight times during 2013. The Management Development and Compensation Committee met in person or by telephone conference seven times during 2013. The Corporate Governance and Nominating Committee met in person or by telephone conference five times during 2013. All of the current members of our Board of Directors attended 75% or more of the meetings of the Board held during the period that he or she served on the Board and all committees on which they served during fiscal 2013.

Audit Committee. The Audit Committee is comprised entirely of independent directors, currently including Stephen L. Gulis, Jr. (Chair), Daniel I. Alegre, Michael J. Harrison, Kathleen L. Nedorostek and Jean-Michel Valette. 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 59 of this Proxy Statement.

Management Development and Compensation Committee. The Management Development and Compensation Committee is comprised entirely of independent directors, currently including Michael A. Peel (Chair), Stephen L. Gulis, Jr., David T. Kollat and Brenda J. Lauderback. 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 responsibilities of the Committee include:

- Establishment of compensation strategies, processes, and programs for the Chief Executive Officer and other executive officers designed to motivate and reward superior company performance;
- Leadership of the Board of Directors' annual process to evaluate the performance of the Chief Executive Officer;
- Review and approval of all compensation elements for the Chief Executive Officer and other executive officers including base salaries, annual cash incentive awards, equity-based awards, benefits, and perquisites;
- Oversight of the annual cash incentive plan, long-term equity-based incentive plans, and major employee benefit programs;
- Review of management development progress, organizational strategy, succession planning for key leadership positions, and overall talent depth to assure that talent formation processes are consistent with the company's aggressive growth goals; and
- Establishment of the structure and amount of non-employee director compensation.

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 bonus 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 27 of this Proxy Statement.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee is comprised entirely of independent directors, currently including Brenda J. Lauderback (Chair), Michael J. Harrison, David T. Kollat and Michael A. Peel. 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 eight 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 generally 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 insights to the discussion and challenge and stimulate management;
- Willingness to speak one's mind;
- 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 CGNC does not have a formal policy with respect to diversity; however, the Board and the CGNC believe that it is essential that Board members represent diverse perspectives.

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 2013 Annual Meeting of Shareholders.

Corporate Governance Principles

Our Board of Directors has adopted Corporate Governance Principles that were originally developed and recommended by the Corporate Governance and Nominating Committee. These Corporate Governance Principles are available in the investor relations section of the company's Web site at *http://www.sleepnumber.com/eng/aboutus/corporategovernance.cfm*. The information contained in or connected to our Web site 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 for Shelly R. Ibach. All Committees of the Board are composed entirely of independent directors.

The Audit Committee charter requires that the Audit Committee must review and approve any proposed or actual related party transaction that would be required to be disclosed by the company pursuant to Item 404 of Regulation S-K of the Federal securities laws.

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 stakeholders 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 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.

Voting Standard for Board Elections. Our 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.

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

Approach to Term and Age Limits. The Board has determined to not adopt specific term or age limits in order to not arbitrarily lose important contributors to the Board. In order to ensure an appropriate balance between new perspectives and experienced Directors, if the median tenure of the Board exceeds 8.5 years or if the majority of the Directors are 60 years of age or older, then the Board may consider alternatives to achieve an appropriate balance of new perspectives and experienced directors on the Board over the ensuing years. Such alternatives may be considered in the context of an evaluation of the Board's needs at the time and into the future and individual Directors' contributions to the Board.

Change in Responsibilities. The Board does not believe that Directors who retire or who have a change in their principal employment or affiliation after joining the Board should necessarily leave the Board. There should, however, be an opportunity for the Board, through the Corporate Governance and Nominating Committee, to review the qualifications of the director for continued Board membership. Any Director who undergoes a material change in principal employment or affiliation is required to promptly notify the Chair of the Corporate Governance and Nominating Committee of the change.

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 Corporate Governance and Nominating Committee and the committee will review the facts and circumstances and determine whether such service would interfere with the Director's ability to devote sufficient time to fulfilling the Director's responsibilities to the company.

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

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 Corporate Governance and Nominating Committee 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 (without regard to restrictions on transfer and including shares allocated to Directors' accounts under the company's non-employee director equity plan) and (2) vested stock options after taxes at an assumed individual effective tax rate of 40%. The fair market value of stock options shall mean the then-current market price less the exercise price.

- *Executive Officer Ownership Guidelines*. Within five years of assuming the position, 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.

- *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.

- *Restrictions on Sale Pending Achievement of Ownership Objectives*. Any director or executive officer 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 or executive officer.

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 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 Web site at *http://www.sleepnumber.com/eng/aboutus/corporategovernance.cfm*. We intend to disclose any amendments to and any waivers from a provision of our Code of Business Conduct on our Web site. The information contained in or connected to our Web site 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.

EXECUTIVE COMPENSATION

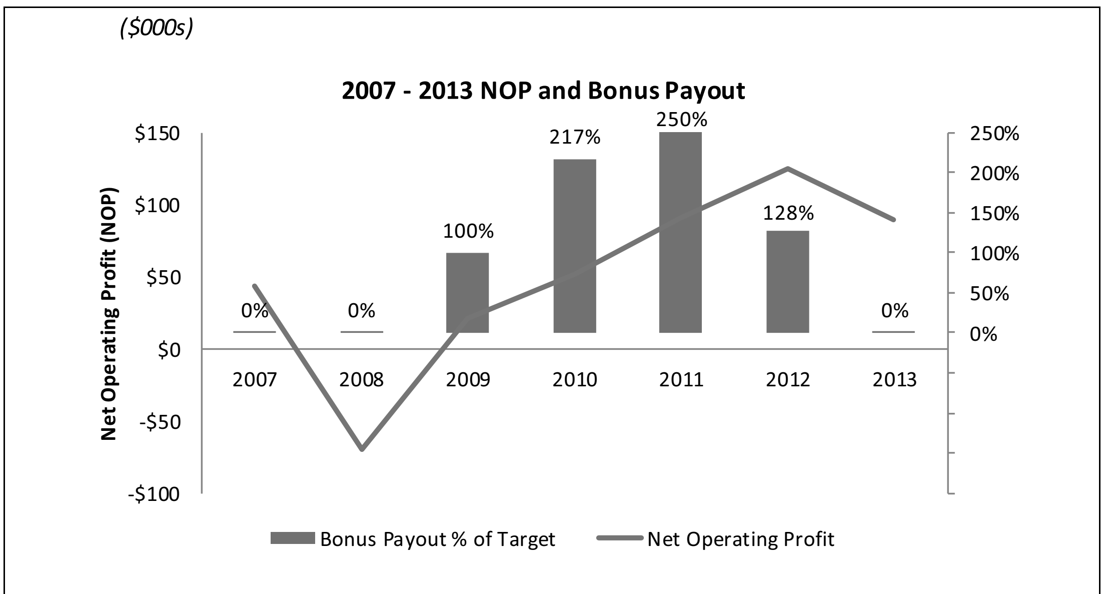
COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis describes the key principles and approaches used to determine the compensation of the named executive officers (NEOs) listed in the Summary Compensation Table. All compensation paid to the NEOs is determined by the Management Development & Compensation Committee of the Board of Directors (the "Committee"), which is composed solely of independent non-employee Directors who meet regularly each fiscal year.

Select Comfort's long-term goal is to consistently grow sales and earnings faster than its industry peers and to out-perform a broader peer group of similarly sized companies involved in the development, manufacturing and/or retailing of home furnishings and other consumer durable products. Our compensation programs are largely performance-oriented — with bonus payouts dependent upon annual financial performance — and with the actual value realized from long-term incentive awards dependent upon both long-term financial and stock price performance. As a result, total compensation for named executive officers and other senior leaders varies from the bottom quartile of the market (when performance is below expectations) to the top quartile of the market (when performance exceeds expectations).

The outcomes for the past seven years from 2007-2013 have demonstrated our commitment to pay and performance alignment, most notably with bonus payouts varying in direct correspondence with overall growth in profit, as outlined in the chart below.



	2007	2008	2009	2010	2011	2012	2013
NOP Growth $ (+/-)	-$29	-$113	$90	$32	$38	$35	-$35
NOP Growth % (+/-)	-40%	-260%	NA	153%	73%	39%	-28%

In addition, the value delivered from long-term incentive (LTI) awards varies with the stock price in order to align our executives with shareholders. Stock option grants will only deliver value if the stock price increases from the date of grant. Furthermore, for LTI awards granted in 2011-2013, approximately 50% of the value of the grants was delivered in performance-vested shares that are subject to the achievement of pre-defined financial goals. The awards granted in 2011 paid out slightly below target (85% of target) based on the following performance through 2013:

- Market share increased to 5.1%, driven by revenue compound annual growth rate (CAGR) of 17% in 2011-2013.

- Free-cash flow generation of $114 million from March 2011 to fiscal year end 2013.

The performance-vested shares granted in 2012 and 2013 will be earned at fiscal year end 2014 and 2015 respectively, based on the achievement of goals for 2014 market share, 2015 revenue, and 2015 NOP margin. We believe this design demonstrates the strong alignment of Select Comfort's NEO compensation with long-term performance metrics important to shareholders.

With regards to specific action taken in 2013, the Compensation Committee made the following decisions for our NEOs:

- Base Salaries: The Committee seeks to set base salaries near the median of the market for comparable positions. In 2013, the Committee increased the salary for the recently promoted CEO, Shelly Ibach, by 13% to a level just above the 25th percentile of the market. Other NEOs received increases in the range of 5%-9% while keeping salaries close to the median of the market.

- Annual Cash Incentive Compensation: The annual cash incentives paid to NEOs are totally performance-based and represent a significant percentage of each individual's total compensation. Target bonus percentage of salary was increased from 75% to 100% for the recently promoted CEO, Shelly Ibach, while target bonus % of salary for other NEOs did not change. We did not achieve the threshold level of Net Operating Profit in 2013, and we therefore paid no annual incentive to any NEO. The resulting actual total cash compensation for each NEO was below the 25th percentile of the market.

- Long-Term Equity-Based Incentive Compensation: In 2013, we continued to grant long-term incentive value in a 50% / 50% mix of options and performance-vested shares. The 2013 performance-vested shares will be earned based on 2015 revenue and NOP margin. In order to move total compensation closer to the median of the market, grant values for most NEOs increased by 11% - 62% in 2013. The grant values increased by large percentages for executives that were recently promoted to new senior executive roles. We delivered the majority of the increased pay for those promoted to senior executive roles in long-term incentive value in order to ensure strong pay and performance alignment over the long-term. The ultimate value realization will depend on financial and stock price performance through fiscal year end 2015.

The Board of Directors and management of Select Comfort are highly committed to building on the outstanding performance achieved in recent fiscal years and to achieving its long-term goal to consistently grow sales and earnings faster than its industry peers and to out-perform a broader peer group of similarly sized companies involved in development, manufacturing and/or retailing of home furnishings and other consumer durable products.

The following discussion provides (1) an overview of the Management Development and Compensation Committee of our Board of Directors, (2) a discussion of the philosophy and objectives of our compensation programs for senior management, and (3) a discussion of each material element of these compensation programs and the process used to determine the amounts of these elements.

Role of the Management Development and Compensation Committee, Senior Management, and the Committee's Independent Consultant

The Management Development and Compensation Committee of the Board of Directors (the "Committee") is comprised entirely of independent, non-employee directors. The primary purpose of the Committee is to discharge the responsibilities of our Board relating to executive compensation and development of current and future leadership resources. The responsibilities of the Committee include:

- Establishment of compensation strategies, processes, and programs for the Chief Executive Officer and other executive officers designed to motivate and reward superior company performance.
- Leadership of the Board of Directors' annual process to evaluate the performance of the Chief Executive Officer.
- Review and approval of all compensation elements for the Chief Executive Officer and other executive officers including base salaries, annual cash incentive awards, equity-based awards, benefits, and perquisites.
- Oversight of the annual cash incentive plan, long-term equity-based incentive plans, and major employee benefit programs.
- Review of management development progress, organizational strategy, succession planning for key leadership positions, and overall talent depth to assure that talent formation processes are consistent with the company's aggressive growth goals.
- Establishment of the structure and amount of non-employee director compensation.

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. To maintain the independence of these advisors, the charter also provides that the 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.

From 2010 through September 2013, the Committee engaged Semler Brossy as the Committee's independent compensation consultant. In October 2013, the Committee conducted interviews with several independent compensation consultants before ultimately selecting the firm of Frederic W. Cook & Co., Inc. as its new independent compensation consultant. In the course of its engagement, the independent compensation consultant has generally:

- Conducted, and reported to the Committee with respect to, a general assessment of each of the principal elements of the company's executive compensation program;

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

- Advised the Committee in connection with the design of both the annual cash incentive plan and the long-term equity incentive program;

- Provided the Committee with market data and trends and analyses utilizing both general industry survey information and peer group proxy information related to executive compensation levels and design; and

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

In engaging compensation consultants, the Committee considers the consultant's independence in light of SEC rules and NASDAQ listing standards. At the Committee's request, the compensation consultants provided information addressing the independence of both the individual compensation advisors and the consulting firm, including the following disclosures: (1) any other services provided by the consulting firm to the company; (2) fees paid by the company as a percentage of the consulting firm's total revenue; (3) policies and procedures adopted by the consulting firm to prevent conflicts of interest; (4) any business or personal relationships between the individual compensation advisors and a member of the Committee; (5) any company stock owned by the individual compensation advisors; and (6) any business or personal relationships between our executive officers and the individual compensation advisors or consulting firm. The Committee assessed these factors and concluded that the engagement of the independent compensation consultants does not raise any conflict of interest.

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. 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, 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 our human capital department with respect to key compensation elements and broad-based employee benefit plans.

Compensation Philosophy and Objectives

Our compensation philosophy and objectives may be summarized as follows:

- <u>Competitive Compensation</u>. As a growth-oriented company, we need to attract, retain and motivate executives and key employees with the capability to enable us to achieve significantly greater scale.

- <u>Performance-Based Compensation</u>. We favor variable compensation tied to company results over fixed compensation. We target total direct compensation near the market median, with the opportunity to earn total compensation above the market median when company and/or individual performance exceeds objectives.

- <u>Reward both Company-Wide and Individual Achievement</u>. In determining short-term and long-term incentive awards, emphasis is placed on company performance. However, significant differentiation can occur, primarily with respect to merit increases in base salaries and in long-term equity awards, based on individual performance and potential.

- <u>Emphasize Stock Ownership</u>. We believe that employee stock ownership is a valuable tool to align the interests of employees with those of shareholders. The company has established specific stock ownership objectives for company officers as well as for members of the Board of Directors. The company has historically provided a variety of means for broader stock ownership by employees at all levels, including through our long-term incentive plans and our 401(k) savings plan.

Corporate Governance Framework

In order to meet the key objectives of our executive compensation program, and to mitigate risk from our compensation practices and principles, the company has adopted a strong corporate governance framework that includes the components described below.

- <u>Stock Ownership Guidelines</u>. We have established stock ownership guidelines for our executive officers to further align the interests of our executives with those of our shareholders. Within five years of assuming the position, executive officers are expected to achieve and maintain equity ownership at the following levels:

    - CEO: 5x base salary

    - All other executive officers: 3x base salary

For purposes of these guidelines, stock ownership includes the fair market value of (1) all shares of common stock owned and (2) vested stock options after taxes at an estimated effective tax rate of 40%.

- Share Retention Requirement. Any executive officer 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 executive officer.

- Clawback Provision. Our Amended and Restated 2010 Omnibus Incentive Plan, which governs both our annual cash incentive program as well as our long-term equity incentive program, includes a "clawback" provision. Under this provision, the Committee may cause any rights or awards under the plan to be terminated or forfeited, and may cause a participant to return to the company any shares received, any profits or any other economic value realized by the participant in connection with any awards or any shares issued upon the exercise or vesting of any awards, if a participant has taken any action that would constitute "cause" or an "adverse action." In addition, the plan incorporates the Sarbanes-Oxley Act of 2002 automatic forfeiture standard for certain participants in connection with material noncompliance, as a result of misconduct, resulting in an accounting restatement. In addition, all awards under the Amended and Restated 2010 Plan will be subject to forfeiture or other penalties pursuant to any clawback or forfeiture policy of the company, as in effect from time to time, and such forfeiture and/or penalty conditions or provisions as determined by the Committee and set forth in the applicable award agreement.

- Double-Trigger Vesting. Under the Amended and Restated 2010 Omnibus Incentive Plan, an executive's unvested equity awards will vest upon a change in control only if the executive also experiences a qualifying termination of employment (or a significant diminution in role).

- No Stock Option Re-Pricing. The company's equity incentive plans do not permit us to reprice stock options without shareholder approval or to grant stock options with an exercise price below fair market value.

- No Tax Gross-Ups. The Company generally does not provide tax gross-ups on any benefits or perquisites, including severance payments and benefits received following a change in control.

- No Hedging or Pledging of Company Stock. Directors, officers and other employees whose duties regularly bring them into contact with confidential or proprietary information are prohibited from engaging in (i) any form of hedging or monetization transactions involving the company's securities, (ii) short sales of the company's securities, (iii) trading in options, puts, calls or other derivatives of the company's securities, and (iv) any form of pledging of the company's securities.

- Independent Compensation Consultant. Our Compensation Committee retains an independent compensation consultant who performs services only for the Compensation Committee.

Consideration of 2013 Say on Pay Advisory Vote

At our 2013 Annual Meeting, our shareholders had the opportunity to provide an advisory vote on the compensation paid to our NEOs, or a "say on pay" vote. Over 98% of the votes cast by our shareholders were in favor of the "say on pay" vote. The Committee generally believes that these voting results affirm shareholder support of our approach to executive compensation. Therefore, the Committee did not believe it was necessary to, and did not, make any changes to our executive compensation program in response to the shareholder vote.

Compensation Program Elements

Our executive compensation program currently consists of the following key elements:

1. Base salary;

2. Annual cash incentive compensation;

3. Long-term equity-based incentive compensation;

4. Severance compensation upon termination of employment under certain circumstances;

5. Broad-based benefit plans available to other employees generally; and

6. Limited perquisites.

Each of these elements, and in particular the first three elements listed above, are essential in our efforts to attract, motivate, reward and retain the senior management talent required to achieve our corporate objectives and drive long-term value for our shareholders. As mentioned earlier, and to further establish alignment with our shareholders, we have stock ownership requirements for senior management. We do not have employment agreements with any of our executive officers that provide for continued employment for any period of time.

Peer Group and Benchmarking. The Committee annually reviews the total compensation program for each of the company's executive officers. 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 relative to the company's executive officers.

The market data and trends are developed from both the Towers Watson Compensation Data Bank (CDB), General Industry Executive Compensation Survey Report and an industry peer group. The Committee, in consultation with the independent compensation consultant, annually reviews the composition of the industry peer group, which generally consists of our industry peers, as well as a broader peer 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. The Committee has a preference to focus the peer group on household and consumer durable product companies, but has also expanded the peer group to include other retailers in order to ensure an appropriate number of companies for benchmarking purposes. As a result, at the end of 2012, for use in 2013 and thereafter, the Committee adopted a peer group including the following 19 companies:

- Ann Inc.
- Chico's FAS Inc.
- Columbia Sportswear Co.
- Deckers Outdoor Corp.
- Ethan Allen Interiors Inc.
- Express Inc.
- Haverty Furniture Companies, Inc.
- Jos. A. Bank Clothiers Inc.
- Kirkland's Inc.
- La-Z-Boy Incorporated
- lululemon athletica inc.
- Lumber Liquidators Holdings, Inc.
- Mattress Firm Holding Corp.
- Pier 1 Imports, Inc.
- Polaris Industries Inc.
- Sealy Corp.*
- Steven Madden Ltd.
- Tempur-Pedic International Inc.*
- Williams-Sonoma Inc.

* Compensation analysis used to evaluate 2013 NEO compensation levels was based on proxy statements filed by both Sealy Corp. and Tempur-Pedic International before the March 2013 acquisition. As a result, both companies are listed separately above, even though the combined entity is now Tempur Sealy International.

With the assistance of the independent compensation consultant, the Committee values the total compensation of the executive officers in two ways, including the targeted compensation opportunity and the current actual compensation. The targeted compensation opportunity includes current base salary, targeted annual incentive compensation, and targeted annual equity award values. The current actual pay includes current base salary, the most recent actual bonus payout and the most recent equity awards reflecting any performance-based adjustments. The competitive position of the compensation for the executive officers is considered from both of these perspectives. This competitive analysis is just one factor considered when making compensation decisions.

Base Salary. Base salaries for executive officers are reviewed after the end of each fiscal year. When making decisions on base salaries, the Committee considers both the external market data noted above as well as a variety of internal criteria, including: (1) each executive officer's scope of responsibilities; (2) each executive officer's qualifications, skills and experience; (3) internal pay equity among senior executives; and (4) 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. Annual increases in base salary are primarily driven by evaluations of individual performance and where each executive stands in relation to internal and external comparators.

The table below provides detail for salary actions taken in March of 2013. These salary increases for several NEOs reflected their growth in new roles at the senior executive level. Even with higher than normal merit adjustments, the resulting 2013 salaries for NEOs were between 10% to 18% below the median of the market.

($000s)

Name	Title	Salary		
		2012	2013	% Increase
Shelly R. Ibach	President and CEO	$600	$680	13.3%
Wendy L. Schoppert	EVP and CFO	$352	$373	6.0%
Kathryn V. Roedel	EVP, Chief Services and Fulfillment Officer	$355	$373	5.1%
Andrew P. Carlin	SVP, Chief Sales Officer	$300	$315	5.0%
Andrea L. Bloomquist	SVP, Chief Product Officer	$276	$300	8.9%

Salaries above are represented at the annual rates effective March 4, 2012 and March 31, 2013. These values are different from the Summary Compensation Table, which represents actual salary earned.

Annual Cash Incentive Compensation. The annual cash incentive is designed to drive company-wide performance for the relevant fiscal year at or above the company's stated long-term growth and profitability objectives. Consistent with the company's performance-based compensation philosophy, the annual cash incentive program is designed to deliver compensation near the market median for achievement of targeted financial objectives, and total compensation can exceed the median for above-target performance or fall below median for below-target performance.

At the beginning of each fiscal year, the Committee determines the four principal elements of the annual bonus plan for the coming fiscal year, including: (1) the performance goals, (2) the split between company-wide performance goals and individual performance goals (if any), (3) the target bonus levels, and (4) the leverage curve for bonus payouts which are above or below target.

- Performance Goals. The Committee determines both the type and the specific targets of the performance goals for each fiscal year. Since 2001, the Committee has selected annual Net Operating Profit ("NOP") as the primary company performance measure based on its belief that this single goal provides a balanced focus on both revenue growth and improved profitability. The NOP target is always determined by the Committee with consideration for performance *after* deduction of all bonus payments.

- Split between Company-Wide Goals and Individual Goals. The Committee is authorized to use both company-wide performance goals and individual performance goals in the annual bonus plan design. In order to unite the executive officers and all other employees to focus on the urgency of company-wide objectives, the Committee has typically chosen to base the annual bonus plan entirely on company-wide performance goals for all participants, and this has been the case in each of the recent fiscal years.

- Target and Actual Bonus Levels. For 2013, Ms. Ibach's target bonus level was increased to 100% of base salary in order to position her target direct total compensation between the 25th percentile and median of the market. Target bonus levels were maintained at 60% for Executive Vice Presidents and 55% for Senior Vice Presidents, consistent with prior years. These target bonus levels are reviewed annually in comparison with the peer group and general industry market data identified above, and are designed to deliver compensation consistent with our stated philosophy. The table below provides detail for the 2013 target bonus and target total cash compensation levels for NEOs, as well as consideration for actual cash compensation with no annual incentive for 2013 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 below the median of the market for below target performance. With the zero annual incentive payout for 2013, cash compensation (base and annual incentive) was below the 25th percentile of the market.

($000s)

Name	Title	Target Bonus 2013 % of Salary	Target Bonus 2013 $	2013 Target Total Cash	2013 Actual Total Cash
Shelly R. Ibach	President and CEO	100%	$680	$1,360	$680
Wendy L. Schoppert	EVP and CFO	60%	$224	$597	$373
Kathryn V. Roedel	EVP, Chief Services and Fulfillment Officer	60%	$224	$597	$373
Andrew P. Carlin	SVP, Chief Sales Officer	55%	$173	$488	$315
Andrea L. Bloomquist	SVP, Chief Product Officer	55%	$165	$465	$300

Cash compensation numbers above represent annualized pay levels for both target and actual, as adjusted for no bonus payout.

- Leverage Curve of the Bonus Payout. The Committee seeks to set the leverage curve of the bonus payout, or the percentage of incremental NOP that is used to fund the overall bonus pool, in a manner that both provides a strong incentive for achievement of stretch performance objectives and a reasonable sharing rate of incremental NOP. For 2013, the leverage curve of the bonus plan was 30% of incremental NOP. Our plan provides for up to 250% of target payout opportunity for maximum NOP performance, and no payout if threshold levels of NOP are not achieved.

  In 2013, we did not achieve the pre-established threshold level of NOP performance required to begin paying annual incentive awards, and therefore no annual incentive was paid to any NEOs for 2013 performance. Our actual NOP of $90 million was below the threshold, which for 2013 was established at $134 million. This threshold level of NOP for 2013 was set at 7% growth from 2012 adjusted NOP, and our target NOP was further set at 23% growth from 2012.

Long-Term Equity-Based Incentive Compensation. The company makes long-term, equity-based incentive compensation grants to its executive officers and other employees in order to align their interests with those of our shareholders, as well as to provide total compensation which 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 upside or downside earning opportunity for over or under achievement of long-term 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 career 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 (i) recent organizational performance relative to the peer group, (ii) individual performance, including levels of responsibility, and the individual's impact on current results and our long-term competitive position, (iii) prior awards, including the number of shares awarded and the accumulated "holding power" of unvested equity to motivate both performance and retention, and (iv) the dilutive impact of equity awards in relation to market data. Our long-term equity-based incentive grants have generally been one of the means to provide differentiation in rewards based on the Committee's assessment of overall performance.

The company has historically granted both (i) standard 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) "full value" restricted stock awards, typically vesting 100% at the end of a period of years from the date of grant. In recent years, consistent with the company's emphasis on performance-based compensation, the full value restricted stock awards granted to executive officers have generally been "performance shares" subject to adjustment based on actual performance versus targets established at the date of grant.

For the 2013 long-term incentive program, the Committee has maintained a 50%/50% mix of stock option award value and performance-based restricted stock award value. The performance-based restricted stock awards are subject to adjustment based on the company's actual performance versus annual sales and operating margin performance objectives at the end of 2015.

The table below provides detail for total grant value of long-term incentives (LTI) awarded in 2012 and 2013. In order to position target total direct compensation (TDC) closer to the median of the market, the Committee increased target LTI values by 11% - 62% for most NEOs in 2013. These year over year changes in grant values were largely the result of higher award values for NEOs that were recently promoted to new senior executive roles. The resulting target total direct compensation for the CEO was 23% below the median of the market, and other NEOs were close to the median of the market.

($000s)

Name	Title	LTI Target Grant Value 2012	LTI Target Grant Value 2013	LTI Target Grant Value % Increase	2013 Target TDC
Shelly R. Ibach	President and CEO	$900	$1,100	22.2%	$2,460
Wendy L. Schoppert	EVP and CFO	$377	$500	32.6%	$1,097
Kathryn V. Roedel	EVP, Chief Services and Fulfillment Officer	$475	$400	-15.8%	$997
Andrew P. Carlin	SVP, Chief Sales Officer	$210	$300	42.9%	$788
Andrea L. Bloomquist	SVP, Chief Product Officer	$185	$300	62.2%	$765

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.

LTI grant value for Ms. Roedel was below 2012 level because she received a special, one-time award of $125k in May of 2012 in recognition of new responsibilities. Without consideration for this award, her annual LTI value in 2013 would have followed a similar trend as other NEOs.

Performance-vested share payouts. The performance-vested shares granted in May 2011 were earned at 85% of target based on market share and free cash flow performance through 2013. These awards will become vested based on continued service through May 2015. The table below provides more context for performance goals, actual performance, and resulting payouts.

	Market Share	**Free Cash Flow**	**Payout % of Target**
Threshold	4.2%	$86.0	25%
Below Target	4.5%	$100.0	50%
Target	5.0%	$143.0	100%
Maximum	6.0%	$186.0	150%
Actual Performance	5.1%	$113.8	
Payout % of Target	104%	66%	85%

For market share, the threshold was set consistent with actual performance through fiscal year end 2010, such that shares would only be earned for increase in market share. As of fiscal year end 2013, market share of 5.1% was achieved, driven by revenue CAGR of 17% from 2011-2013, and 104% of target payout was earned for this metric.

Free Cash Flow increased by $114 million and this generated a 66% payout. The Free Cash Flow goal was measured starting March of 2011 in order to maintain 162(m) compliance for awards that were granted in May 2011.

The average of these two performance scores resulted in an 85% of target payout for the total award.

The performance-vested shares granted in 2012 will be earned based on 2014 market share, and the performance-vested shares granted in 2013 will be earned based on 2015 revenue and NOP margin.

In May of 2010, shareholders approved the Select Comfort Corporation 2010 Omnibus Incentive Plan, which governs not only our annual cash incentive program, but also our long-term equity incentive program for grants in 2010 and subsequent years. In May of 2013, shareholders approved an amendment that allowed for additional shares to be granted from the plan. The amended plan also included other immaterial amendments such as (i) the addition of certain minimum vesting and minimum performance period requirements; (ii) the expansion of the "clawback" provision to include any clawback policy of the company that may be in effect from time to time and any clawback provision that may be included in an award agreement; and (iii) changes designed to conform to regulations related to deferred compensation.

Severance Compensation. In February of 2007, the Committee adopted the Select Comfort Corporation Executive Severance Pay Plan (the "Severance Plan"). The Severance Plan establishes severance benefits payable to the CEO and other executive officers upon termination of their employment by the company without cause. Under the Severance Plan, upon termination of employment by the company without cause, the CEO would be entitled to a base amount of severance pay 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. Each of the other NEOs, upon termination of employment by the company without cause, would be entitled to a base amount of severance pay 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. 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 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: (i) 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); (ii) the end of the participant's eligibility for COBRA continuation coverage; or (iii) the date the participant becomes eligible to participate in another group medical plan or dental plan, as the case may be. 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.

Severance benefits are only payable in the event of the eligible employee's termination of employment by the company without cause or by the employee for "good reason" as defined by the Severance Plan. 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.

The Severance Plan was adopted in order to establish consistent severance benefits for senior executives and to establish a plan that would comply with anticipated new regulations under Internal Revenue Code Section 409A applicable 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. No participant would receive less under the Severance Plan than he or she would be entitled to under his or her individual offer letter, and any such payment under an individual offer letter would be deducted from the amount payable under the Severance Plan.

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

Benefits and Perquisites. Our executive officers generally receive the same menu of benefits as are available to other full-time employees, including but not limited to the following:

- 401(k) Plan. All of our full-time employees age 21 and older are eligible to participate in our 401(k) savings 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 provided a discretionary match of a portion of employee contributions, at levels that have fluctuated.

- Non-Qualified Deferred Compensation Plan. Our director-level and above employees may defer a portion of their compensation 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 does not contribute any compensation to this plan.

As the company provides no 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 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 $7,500 per year for the CEO and up to $4,000 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.

Stock Ownership Guidelines

Under stock ownership guidelines established by the Board, within five years of assuming the position, the CEO is expected to achieve and maintain stock ownership equal to five times base salary and all other executive officers are expected to achieve and maintain stock ownership equal to three times their base salaries. For purposes of these guidelines, stock ownership includes the fair market value of (1) all shares of common stock owned (without regard to restrictions on transfer) and (2) vested stock options after taxes at an estimated effective tax rate of 40%. The fair market value of stock options shall mean the then-current market price less the exercise price.

Any executive officer 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 executive officer.

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.

COMPENSATION COMMITTEE REPORT

The Management Development and Compensation Committee of the Board of Directors has reviewed and discussed the preceding Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Management Development and Compensation Committee

Michael A. Peel, Chair
Stephen L. Gulis, Jr.
David T. Kollat
Brenda J. Lauderback

The foregoing 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, the foregoing Compensation Committee Report shall not be incorporated by reference into any such filings.

Summary Compensation Table

The following table summarizes the total compensation paid or earned by each of the named executive officers for the 2013 fiscal year ended December 28, 2013 (and for the 2012 and 2011 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 27.

Name And Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards[1] ($)	Option Awards[1] ($)	Non-Equity Incentive Plan Compensation[2] ($)	All Other Compensation[3] ($)	Total ($)
Shelly R. Ibach President and CEO	2013	$660,000	---	$460,553	$441,184	---	$15,150	$1,576,887
	2012	$522,061	---	$466,316	$501,126	$473,170	$11,436	$1,974,109
	2011	$385,579	---	$258,328	$155,996	$604,153	$10,957	$1,415,013
Wendy L. Schoppert EVP and CFO	2013	$367,750	---	$209,080	$200,347	---	$12,339	$ 789,516
	2012	$346,461	---	$211,627	$229,260	$264,987	$10,250	$1,062,585
	2011	$303,027	---	$142,916	$140,894	$437,691	$ 9,141	$1,033,669
Kathryn V. Roedel EVP, Chief Services and Fulfillment Officer	2013	$368,713	---	$167,649	$160,383	---	$ 9,170	$ 705,915
	2012	$352,379	---	$255,038	$272,924	$269,697	$ 8,456	$1,158,494
	2011	$334,157	---	$149,037	$146,950	$500,964	$ 8,067	$1,139,175
Andrew P. Carlin SVP, Chief Sales Officer	2013	$311,250	---	$125,255	$120,419	---	$ 9,681	$ 566,605
Andrea L. Bloomquist SVP, Chief Product Officer	2013	$293,750	---	$125,255	$120,419	---	$11,621	$ 551,045

(1) Reflects the aggregate grant date fair value of stock and option awards granted during fiscal years 2013, 2012 and 2011, 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 28, 2013, for a discussion of the relevant assumptions used in calculating these amounts.

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.

	2013		2012		2011	
	Grant Date Fair Value	Maximum Value	Grant Date Fair Value	Maximum Value	Grant Date Fair Value	Maximum Value
Ms. Ibach	$ 460,553	$ 921,106	$ 466,316	$ 699,474	$ 158,228	$ 237,342
Ms. Schoppert	$ 209,080	$ 418,160	$ 211,627	$ 317,441	$ 142,916	$ 214,374
Ms. Roedel	$ 167,649	$ 335,298	$ 255,038	$ 382,557	$ 149,037	$ 223,556
Mr. Carlin	$ 125,255	$ 250,510	---	---	---	---
Ms. Bloomquist	$ 125,255	$ 250,510	---	---	---	---

(2) Represents annual incentive compensation earned under the Select Comfort Corporation Executive and Key Employee Incentive Plan (the "Plan"). No amounts were earned under the Plan for fiscal year 2013.

(3) 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.

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 2013 fiscal year ended December 28, 2013.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards[2]						
Name	Grant Date	Thresh-old ($)	Target ($)	Maxi-mum ($)	Thresh-old (#)	Target (#)	Maxi-mum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Under-lying Options (#)[3]	Exercise or Base Price of Option Awards ($/Sh)[4]	Grant Date Fair Value of Stock and Option Awards ($)[5]
Shelly R. Ibach		$131,692	$658,462	$1,646,154							
	4/1/13				5,975	23,900	47,800				$460,553
	4/1/13								41,950	$21.15	$441,184
Wendy L. Schoppert		$ 44,082	$220,408	$ 551,019							
	4/1/13				2,713	10,850	21,700				$209,080
	4/1/13								19,050	$21.15	$200,347
Kathryn V. Roedel		$ 44,206	$221,030	$ 552,575							
	4/1/13				2,175	8,700	17,400				$167,649
	4/1/13								15,250	$21.15	$160,383
Andrew P. Carlin		$ 34,206	$171,029	$ 427,572							
	4/1/13				1,625	6,500	13,000				$125,255
	4/1/13								11,450	$21.15	$120,419
Andrea L. Bloomquist		$ 32,260	$161,298	$ 403,245							
	4/1/13				1,625	6,500	13,000				$125,255
	4/1/13								11,450	$21.15	$120,419

(1) This represents the annual cash incentive opportunity for 2013 under the Select Comfort Corporation Executive and Key Employee Incentive Plan. The actual amounts paid out under this plan for 2013 are reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table. The threshold reflects the amount that would be payable under the plan if the minimum performance level is achieved for company-wide performance goals. If the minimum performance level for payment of the threshold amount is not achieved, then no bonus would be payable under the plan.

(2) These awards represent performance stock awards described in greater detail in the Compensation Discussion and Analysis under the heading, "Long-Term Equity-Based Incentive Compensation." The target number of shares may be adjusted based on company performance during the performance period which ends January 2, 2016 (fiscal 2015 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 awards would receive dividends at the same rate as paid to other shareholders if and when the performance stock award becomes fully vested.

(3) 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 of $21.15, which is higher than the $19.27 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.

(4) The effective grant date of options in 2013 was several weeks later than in 2012 to align with the company's performance review schedule. The Committee wanted to eliminate the potential benefit from timing that NEOs could have received from a decline in stock price between the date of approval of the grants and the effective grant date. Therefore, the exercise price selected was the higher of the closing market price on February 19, 2013 (the date of the Committee's original approval) and the effective date of grant, April 1, 2013. Accordingly, the closing price on February 19, 2013 of $21.15 was selected as the exercise price.

(5) Reflects the grant date fair value computed in accordance with FASB Accounting ASC Topic 718. The valuation on performance-based awards reflects the target payout as the performance criteria has not yet been achieved.

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 28, 2013.

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	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 ($)
Shelly R. Ibach	14,500	---	$18.22	4/2/2017	---	---	---	---
	25,000	---	$10.63	11/27/2017	---	---	---	---
	6,610	---	$ 3.76	3/7/2018	---	---	---	---
	6,250	---	$ 0.94	6/1/2019	---	---	---	---
	7,500	---	$ 0.79	6/18/2019	---	---	---	---
	27,375	8,438[1]	$ 9.75	6/4/2020	---	---	---	---
	---	---	---	---	11,250[2]	$238,725	---	---
	7,019	7,019[3]	$17.34	5/11/2021	---	---	---	---
	---	---	---	---	7,770[4]	$164,879	---	---
	---	---	---	---	7,000[5]	$148,540	---	---
	4,475	13,425[6]	$28.99	2/23/2022	---	---	---	---
	---	---	---	---	---	---	9,600[7]	$203,712
	3,381	10,145[8]	$25.99	6/1/2022	---	---	---	---
	---	---	---	---	---	---	7,234[9]	$153,505
	---	41,950[10]	$21.15	4/1/2023	---	---	---	---
	---	---	---	---	---	---	5,975[11]	$126,790
Wendy L. Schoppert	22,500	---	$24.65	3/2/2016	---	---	---	---
	---	6,750[1]	$ 9.75	6/4/2020	---	---	---	---
	---	---	---	---	9,000[2]	$190,980	---	---
	---	6,340[3]	$17.34	5/11/2021	---	---	---	---
	---	---	---	---	7,018[4]	$148,922	---	---
	3,425	10,275[6]	$28.99	2/23/2022	---	---	---	---
	---	---	---	---	---	---	7,300[7]	$154,906
	---	19,050[10]	$21.15	4/1/2023	---	---	---	---
	---	---	---	---	---	---	2,713[11]	$57,570
Kathryn V. Roedel	11,400	---	$24.65	3/2/2016	---	---	---	---
	5,376	---	$ 0.94	6/1/2019	---	---	---	---
	20,000	---	$ 0.79	6/18/2019	---	---	---	---
	35,812	8,438[1]	$ 9.75	6/4/2020	---	---	---	---
	---	---	---	---	11,250[2]	$238,725	---	---
	6,612	6,612[3]	$17.34	5/11/2021	---	---	---	---
	---	---	---	---	7,319[4]	$155,309	---	---
	3,150	9,450[6]	$28.99	2/23/2022	---	---	---	---
	---	---	---	---	---	---	6,800[7]	$144,296
	1,041	3,124[8]	$25.99	6/1/2022	---	---	---	---
	---	---	---	---	---	---	2,228[9]	$ 47,278
	---	15,250[10]	$21.15	4/1/2023	---	---	---	---
	---	---	---	---	---	---	2,175[11]	$ 46,154

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 ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	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 ($)
Andrew P. Carlin	4,000	---	$ 3.76	3/7/2018	---	---	---	---
	10,500	---	$ 0.94	6/1/2019	---	---	---	---
	6,562	3,283[1]	$ 9.75	6/4/2020	---	---	---	---
	---	---	---	---	6,563[2]	$139,267	---	---
	1,700	1,700[3]	$17.34	5/11/2021	---	---	---	---
	---	---	---	---	1,895[4]	$ 40,212	---	---
	---	---	---	---	5,000[5]	$106,100	---	---
	750	2,250[6]	$28.99	2/23/2022	---	---	---	---
	---	---	---	---	---	---	1,700[7]	$ 36,074
	1,041	3,124[8]	$25.99	6/1/2022	---	---	---	---
	---	---	---	---	---	---	2,228[9]	$ 47,278
	---	11,450[10]	$21.15	4/1/2023	---	---	---	---
	---	---	---	---	---	---	1,625[11]	$ 34,483
Andrea L. Bloomquist	3,000	---	$ 3.07	5/5/2018	---	---	---	---
	1,750	---	$ 0.94	6/1/2019	---	---	---	---
	9,842	3,283[1]	$ 9.75	6/4/2020	---	---	---	---
	---	---	---	---	6,563[2]	$139,267	---	---
	1,550	1,550[3]	$17.34	5/11/2021	---	---	---	---
	---	---	---	---	1,724[4]	$ 36,583	---	---
	---	---	---	---	3,500[5]	$ 74,270	---	---
	750	2,250[6]	$28.99	2/23/2022	---	---	---	---
	---	---	---	---	---	---	1,700[7]	$ 36,074
	833	2,499[8]	$25.99	6/1/2022	---	---	---	---
	---	---	---	---	---	---	1,782[9]	$ 37,814
	---	11,450[10]	$21.15	4/1/2023	---	---	---	---
	---	---	---	---	---	---	1,625[11]	$ 34,483

(1) These stock options were granted on June 4, 2010 and vest 25% each year on each of the first four anniversaries of the date of grant, subject to continuing employment. A portion of the award was subject to performance adjustments. The performance period was completed at the end of fiscal year 2010.

(2) These restricted stock awards were granted on June 4, 2010 and vest 100% on June 4, 2014. A portion of the award was subject to performance. The performance period was completed at the end of fiscal year 2010.

(3) These stock options were granted on May 11, 2011 and vest 25% each year on each of the first four anniversaries of the date of grant, subject to continuing employment.

(4) These performance stock awards were granted on May 11, 2011 and vest 100% on May 11, 2015, subject to continuing employment. The performance measurement period was completed at the end of fiscal year 2013.

(5) These stock awards were granted on June 13, 2011 and vest 100% on June 13, 2015, subject to continuing employment.

(6) These stock options were granted on February 23, 2012 and vest 25% each year on each of the first four anniversaries of the date of grant, subject to continuing employment.

(7) These performance stock awards were granted on February 23, 2012 and vest 100% on February 23, 2016, subject to continuing employment. The shares are reflected at the target award level. The performance period continues through fiscal 2014 year end.

(8) These stock options were granted on June 1, 2012 and vest 25% each year on each of the first four anniversaries of the date of grant, subject to continuing employment.

(9) These performance stock awards were granted on June 1, 2012 and vest 100% on June 1, 2016, subject to continuing employment. The shares are reflected at the target award level. The performance period continues through fiscal 2014 year end.

(10) These stock options were granted on April 1, 2013 and vest one-third each year on each of the first three anniversaries of the date of grant, subject to continuing employment.

(11) These performance stock awards were granted on April 1, 2013 and vest 100% on April 1, 2016, subject to continuing employment. The shares are reflected at the threshold award level. The performance period continues through fiscal 2015 year end.

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 28, 2013.

	Option Awards		**Stock Awards**	
Name	**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	---	---	27,500	$664,375
Wendy L. Schoppert	110,589	$1,573,619	25,000	$554,750
Kathryn V. Roedel	---	---	26,492	$640,105
Andrew P. Carlin	---	---	5,250	$116,498
Andrea L. Bloomquist	5,250	$ 104,470	3,500	$ 77,665

(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 2013 fiscal year ended December 28, 2013.

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year[1] ($)	Aggregate Earnings in Last Fiscal Year[1] ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year-End[1] ($)
Shelly R. Ibach	---	---	---	---	---
Wendy L. Schoppert	---	---	---	---	---
Kathryn V. Roedel	---	---	$ 2,009	---	$ 94,407
Andrew P. Carlin	$74,712	---	$17,501	---	$125,951
Andrea L. Bloomquist	---	---	---	---	---

(1) Among the named executive officers, only Ms. Roedel and Mr. Carlin had account balances under the plan as of December 28, 2013. Ms. Roedel did not elect to make additional contributions (salary or bonus deferrals) to the plan in fiscal year 2013.

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 Letter Agreements, Severance Plan, Potential Payments upon Termination or Change in Control and Clawback Provisions

Employment Offer Letters. 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. The company has issued employment offer letters to the currently employed named executive officers as described below.

Shelly R. Ibach. Under an employment offer letter extended to Ms. Ibach, upon termination of her employment without cause, she is entitled to receive six months base salary as severance compensation, and if such termination occurs more than half-way through a fiscal year of the company, she is entitled to receive a pro rata portion of any bonus payment that is ultimately earned for such fiscal year, payable at the time such bonus payments are paid to other eligible employees. Any severance compensation payable under this offer letter would be subject to a standard release of claims and would also reduce by the same amount any amount payable under the company's severance plan. This employment offer letter does not provide any contractual or other right to employment for any period of time.

Kathryn V. Roedel. Under an employment offer letter extended to Ms. Roedel, upon the involuntary termination of Ms. Roedel's employment following a change in control, or upon a termination without cause, she is entitled to one year's salary as severance compensation, and if such termination occurs more than half-way through a fiscal year of the company, she is entitled to receive a pro rata portion of any bonus payment that is ultimately earned for such fiscal year, payable at the time such bonus payments are paid to other eligible employees. Any severance compensation payable under this offer letter would be subject to a standard release of claims and would also reduce by the same amount any amount payable under the company's severance plan. This employment offer letter does not provide any contractual or other right to employment for any period of time.

Severance Plan

Effective as of February 22, 2007, our Board of Directors adopted the Select Comfort Corporation Executive Severance Pay Plan (the "Severance Plan"), establishing severance benefits payable to the CEO and other executive officers upon termination of their employment by the company without cause or upon a resignation for "good reason" as defined by the plan. Prior to the adoption of the Severance Plan, some but not all of the senior executives were entitled to severance benefits pursuant to employment offer letters negotiated at the time of hire. The Severance Plan was adopted in order to (i) provide consistent severance benefits for the company's senior executives and (ii) establish a plan that would comply with anticipated new regulations under Internal Revenue Code Section 409A applicable to deferred compensation.

Compensation would only be payable under the Severance Plan upon termination of employment without "cause," as defined in the plan, or in the event of a resignation for "good reason," as defined by the plan. No compensation would be payable under the Severance Plan (i) upon termination of employment for cause, (ii) upon termination of employment due to the resignation, retirement or death of the employee, or (iii) solely due to a change in control of the company.

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, any severance compensation remaining to be paid would be terminated in the event the release described above is declared invalid or is revoked or attempted to be revoked, or in the event of a violation by the employee of a non-compete or confidentiality agreement with the company. Each of the named executive officers has signed a non-compete agreement extending for one year following termination of employment and a confidentiality agreement of indefinite duration.

For the CEO, the base 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 base 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. 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 of employment occurs.

In addition to the base severance compensation, 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: (i) the end of the period of time reflected in the base severance compensation (i.e., two years for CEO, one year for Executive or Senior Vice Presidents); (ii) the end of the participant's eligibility for COBRA continuation coverage; or (iii) the date the participant becomes eligible to participate in another group medical plan or dental plan, as the case may be. 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.

<u>Change in Control Provisions –2004 Stock Incentive Plans</u>

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.

Clawback Provisions – 2010 Omnibus Incentive Plan

Our 2010 Plan, which governs both our annual cash incentive program as well as our long-term equity incentive program, includes a "clawback" provision. Under this provision, the Committee may cause any rights or awards under the plan to be terminated or forfeited, and may cause a participant to return to the company any shares received, any profits or any other economic value realized by the participant in connection with any awards or any shares issued upon the exercise or vesting of any awards, if a participant has taken any action that would constitute "cause" or an "adverse action." In addition, the plan incorporates the Sarbanes-Oxley Act of 2002 automatic forfeiture standard for certain participants in connection with material noncompliance, as a result of misconduct, resulting in an accounting restatement. In addition, all awards under the 2010 Plan will be subject to forfeiture or other penalties pursuant to any clawback or forfeiture policy of the company, as in effect from time to time, and such forfeiture and/or penalty conditions or provisions as determined by the Committee and set forth in the applicable award agreement.

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 28, 2013 (fiscal year-end).

		Triggering Events				
Name	**Type of Payment**	**Voluntary/For Cause Termination ($)**	**Involuntary Termination without Cause ($)**	**Change in Control ($)**	**Qualifying Change in Control Termination[1] ($)**	**Death or Disability ($)**
Shelly R. Ibach	Cash Severance[2]	---	$3,400,000	---	$3,400,000	---
	Option Award Acceleration[3]	---	---	---	$ 126,954	$ 126,954
	Stock Award Acceleration[4]	---	---	---	$1,445,273	$1,445,273
	Benefit Continuation[5]	---	$ 14,536	---	$ 14,536	---
	Outplacement	---	$ 15,000	---	$ 15,000	---
	Total	---	$3,429,536	---	$5,001,763	$1,572,227
Wendy L. Schoppert	Cash Severance[2]	---	$ 820,600	---	$ 820,600	---
	Option Award Acceleration[3]	---	---	---	$ 103,355	$ 103,355
	Stock Award Acceleration[4]	---	---	---	$ 751,018	$ 751,018
	Benefit Continuation[5]	---	$ 12,169	---	$ 12,169	---
	Outplacement	---	$ 10,000	---	$ 10,000	---
	Total	---	$ 842,769	---	$1,697,142	$ 854,373
Kathryn V. Roedel	Cash Severance[2]	---	$ 820,600	---	$ 820,600	---
	Option Award Acceleration[3]	---	---	---	$ 123,506	$ 123,506
	Stock Award Acceleration[4]	---	---	---	$ 797,299	$ 797,299
	Benefit Continuation[5]	---	$ 9,508	---	$ 9,508	---
	Outplacement	---	$ 10,000	---	$ 10,000	---
	Total	---	$ 840,108	---	$1,760,913	$ 920,805
Andrew P. Carlin	Cash Severance[2]	---	$ 661,500	---	$ 661,500	---
	Option Award Acceleration[3]	---	---	---	$ 45,054	$ 45,054
	Stock Award Acceleration[4]	---	---	---	$ 513,864	$ 513,864
	Benefit Continuation[5]	---	$ 12,211	---	$ 12,211	---
	Outplacement	---	$ 10,000	---	$ 10,000	---
	Total	---	$ 683,711	---	$1,242,629	$ 558,918
Andrea L. Bloomquist	Cash Severance[2]	---	$ 630,000	---	$ 630,000	---
	Option Award Acceleration[3]	---	---	---	$ 44,472	$ 44,472
	Stock Award Acceleration[4]	---	---	---	$ 468,325	$ 468,325
	Benefit Continuation[5]	---	$ 432	---	$ 432	---
	Outplacement	---	$ 10,000	---	$ 10,000	---
	Total	---	$ 640,432	---	$1,153,229	$ 512,797

(1) 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.

(2) 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.

(3) 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 27, 2013 ($21.22), 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 28, 2013 was $0.79 to $21.15.

(4) 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 28, 2013, multiplied by (ii) the fair market value of our common stock on December 27, 2013 ($21.22).

(5) 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 2013 fiscal year ended December 28, 2013.

Name	Fees Earned or Paid in Cash ($)	Stock Awards[(1)(8)] ($)	Option Awards[(2)] ($)	All Other Compensation ($)	Total ($)
Daniel I. Alegre[(3)]	$ 39,949	$ 46,758	$ 46,210	$ 6,720	$139,637
Stephen L. Gulis, Jr.[(4)]	$ 78,626	$ 46,758	$ 46,210	---	$171,594
Michael J. Harrison[(4) (5)]	$ 67,258	$ 46,758	$ 46,210	---	$160,226
David T. Kollat	$ 69,376	$ 46,758	$ 46,210	---	$162,344
Brenda J. Lauderback[(4)]	$ 75,376	$ 46,758	$ 46,210	---	$168,344
Kathleen L. Nedorostek[(6)]	$ 63,500	$ 46,758	$ 46,210	---	$156,468
Michael A. Peel[(4)]	$ 76,003	$ 46,758	$ 46,210	---	$168,971
Ervin R. Shames[(7)]	$ 25,967	---	---	---	$ 25,967
Jean-Michel Valette	$163,500	$ 46,758	$46,210	---	$256,468

(1) Reflects the aggregate grant date fair value of 2,080 restricted stock awards granted during fiscal year 2013, 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 28, 2013, for a discussion of the relevant assumptions used in calculating these amounts. Mr. Shames did not receive an award due to his retirement from the Board of Directors.

(2) Reflects the aggregate grant date fair value of 3,620 stock option awards granted during fiscal year 2013, 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 28, 2013, for a discussion of the relevant assumptions used in calculating these amounts. As of December 28, 2013, the aggregate number of stock options outstanding held by those who served as non-employee directors during fiscal 2013 was as follows: Mr. Alegre, 3,620; Mr. Gulis, 64,745; Mr. Harrison, 7,089; Dr. Kollat, 75,995; Ms. Lauderback, 87,245; Ms. Nedorostek, 9,495; Mr. Peel, 56,108; Mr. Shames, 48,375; and Mr. Valette, 75,995. Mr. Shames did not receive an award due to his retirement from the Board of Directors.

(3) Mr. Alegre was appointed to the Board of Directors effective May 14, 2013. The amount listed in the All Other Compensation column relates to company product received by Mr. Alegre after joining the Board of Directors.

(4) 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 2013, the following Directors have elected to defer receipt of their 2013 Incentive Award: Mr. Gulis, 2,080 shares, Mr. Harrison, 2,080 shares, Ms. Lauderback, 2,080 shares and Mr. Peel, 2,080 shares.

(5) Mr. Harrison was appointed to the Board of Directors effective December 21, 2011. Effective December, 2012, this Director 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 2013 is 3,080 shares.

(6) Ms. Nedorostek was appointed to the Board of Directors effective May 11, 2011. Effective June, 2011, this Director 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 2013 is 2,915 shares.

(7) Mr. Shames determined not to stand for re-election to the Board of Directors at the 2013 Annual Meeting and his term on the Board expired effective May 14, 2013. Mr. Shames did not receive a stock or option award in 2013.

(8) As of December 28, 2013, 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 2013 was as follows: Mr. Alegre, 2,080 shares; Mr. Gulis, 55,358 shares; Mr. Harrison, 5,160 shares; Dr. Kollat, 2,080 shares; Ms. Lauderback, 5,612 shares; Ms. Nedorostek, 8,350 shares; Mr. Peel, 2,080 shares, Mr. Shames, 0 shares and Mr. Valette, 2,080 shares.

Annual Retainer. Effective as of May 2012, all of our non-employee directors are entitled to receive an annual cash retainer of $55,000. The Chair of the Audit Committee receives additional compensation of $17,000 per year, and each of the members of the Audit Committee (other than the Chair) receives additional compensation of $8,500 per year. The Chair of the Management Development and Compensation Committee receives additional compensation of $14,000 per year, and each of the members of the Management Development and Compensation Committee (other than the Chair) receives additional compensation of $7,000 per year. The Chair of the Corporate Governance and Nominating Committee receives additional compensation of $12,000 per year, and each of the members of the Corporate Governance and Nominating Committee (other than the Chair) receives additional compensation of $6,000 per year. 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 one-half would be paid in the form of restricted stock and one-half 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.

Assessment of Risk Related to Compensation Programs

The company has established an annual process designed to assess whether any of the company's compensation programs are reasonably likely to have a material adverse effect on the company. This process has included (1) formation of a cross-functional team including representatives from the legal, human capital and risk management functions within the company; (2) compilation of a comprehensive inventory of the company's compensation programs; (3) identification of potential areas of risk; (4) review of the company's compensation programs by members of the cross-functional team in light of the identified potential areas of risk; (5) identification and review of design and control mechanisms in place to mitigate potential risks; (6) review of the assessment process and the cross-functional team's conclusions with the Management Development and Compensation Committee's independent compensation consultant, Frederic W. Cook & Co., Inc.; and (7) the Management Development and Compensation Committee's review and consideration of the assessment process and the conclusions of the cross-functional team with members of the senior management team and with representatives of the independent compensation consultant. Based on this assessment, the company has determined that none of its compensation programs is reasonably likely to have a material adverse effect on the company.

ADVISORY VOTE ON EXECUTIVE COMPENSATION

(Proposal 2)

Background

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), we are submitting a non-binding, advisory resolution on executive compensation, or "Say-on-Pay" vote, for shareholder consideration.

We believe that our executive compensation program is strongly aligned with the long-term interests of our shareholders and provides a clear correlation between pay and performance. Our executive compensation program is designed to attract, motivate, reward and retain the senior management talent required to achieve our corporate objectives and drive long-term value for our shareholders.

Each of the principal elements of our executive compensation program - other than base salaries and certain benefit programs - is performance-oriented, resulting in total compensation for executive officers that is closely aligned with company performance and shareholder returns. This is clearly reflected in the Compensation Discussion and Analysis beginning on page 27 of this Proxy Statement.

Fiscal years 2007 and 2008 were extremely challenging for both the company and the entire mattress industry, and company performance did not meet internal or external expectations. The company's performance began to improve significantly in 2009 and was accelerated in 2010 through 2012 as the company substantially exceeded both internal and external expectations. Performance in 2013 did not meet internal or external expectations. The compensation delivered by the principal performance-oriented elements of our executive compensation program has reflected these results:

- Annual Cash Incentive Compensation was not paid for either 2007 or 2008; was paid at target level for 2009; was paid at significantly above target level for 2010 and 2011; was paid modestly above target level for 2012; and was not paid for 2013.

- Long-Term Equity-Based Incentive Compensation has been subject to significant performance adjustments, resulting in stock-based awards that were substantially reduced in both 2007 and 2008; awards in 2009 were made at more modest levels in comparison with prior years and were not adjusted downward as the company exceeded its performance objectives; 2010 awards were adjusted upward based on achievement of stretch objectives that were well above plan; awards granted in 2011 were recently adjusted modestly below target levels based on performance from 2011 through 2013; and awards granted in 2012 and 2013 are subject to future performance adjustment based on actual performance versus targets over the respective three-year periods beginning with the year of grant.

We believe that our compensation program and the resulting payouts reflect strong pay and performance alignment. We urge shareholders to carefully consider the Compensation Discussion and Analysis beginning on page 27 of this Proxy Statement and the accompanying tables, which provide detailed information regarding key elements of our executive compensation program and our compensation philosophy and objectives.

Proposal

The Board of Directors recommends that shareholders approve the following advisory resolution at the 2014 annual meeting:

> RESOLVED, that the shareholders of Select Comfort Corporation approve, on an advisory basis, the compensation paid to the company's executive officers as described in the Compensation Discussion and Analysis, the Summary Compensation Table, and the related compensation tables and narrative in the Proxy Statement for the company's 2014 Annual Meeting of Shareholders.

Because this vote is advisory, it will not be binding on the company or the Board of Directors. However, the Management Development and Compensation Committee of the Board of Directors will take the outcome of the vote into account in determining future executive compensation arrangements.

Board Recommendation

The Board of Directors recommends that shareholders vote "**For**" approval of the foregoing resolution in favor of the company's executive compensation program.

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.

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 Web site at *http://www.sleepnumber.com/eng/aboutus/corporategovernance.cfm*.

The Audit Committee is currently composed of five directors, each of whom is independent as defined by the National Association of Securities Dealers' listing standards. Throughout 2013, the Audit Committee included Stephen L. Gulis, Jr. (Chair), Michael J. Harrison, Kathleen L. Nedorostek and Jean-Michel Valette. Daniel I. Alegre was added to the Audit Committee following his appointment to the Board of Directors in May of 2013.

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 2013 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 eight times during 2013. 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 separately with representatives of the Independent Registered Public Accounting Firm, the executive who leads our internal audit function, and representatives of the senior management team.

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). 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 28, 2013, 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
Daniel I. Alegre
Michael J. Harrison
Kathleen L. Nedorostek
Jean-Michel Valette

RATIFICATION OF SELECTION
OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(Proposal 3)

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 2014 fiscal year ending January 3, 2015. 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 2014 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 2013 and 2012 were:

	2013	**2012**
Audit fees	$446,868	$326,093
Audit-related fees (1)	2,200	2,200
Audit and audit-related fees	$449,068	$328,293
Tax fees (2)	105,302	94,455
All other fees	---	---
Total	$554,370	$422,748

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(1) These fees related to access to an online accounting research tool.
(2) These fees are primarily for tax compliance services based on time and materials.

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 2013 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 2014 fiscal year ending January 3, 2015. 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.

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 2013 fiscal year ended December 28, 2013 and written representations by such persons, all reports were filed on a timely basis, other than one report related to Karen R. Richard reflecting stock option exercises and same day sales, which was inadvertently filed late due to an administrative error.

Shareholder Proposals for 2015 Annual Meeting

Any shareholder proposal requested to be included in the proxy materials for the 2015 Annual Meeting of Shareholders must (i) be received by our Senior Vice President, General Counsel and Secretary on or before December 5, 2014 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 2015 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, 2014. 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 2013 Annual Report

We will furnish to our shareholders without charge a copy of our Annual Report on Form 10-K (without exhibits) for the 2013 fiscal year ended December 28, 2013. 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

Some banks, brokers and other record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that you and other holders of our company's common stock in your household may not receive separate copies of our Notice of Internet Availability of Proxy Materials, Proxy Statement or Annual Report. 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

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, or the shareholder may contact us at the above address or phone number.

Your vote is important. Whether or not you plan to attend the Annual Meeting, please vote your shares of common stock promptly by mail, telephone, or Internet as instructed on your proxy card.

By Order of the Board of Directors

Mark A Kimball

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

April 4, 2014
Plymouth, Minnesota

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 28, 2013

☐ **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 $.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 equity held by non-affiliates of the Registrant as of June 29, 2013, was $1,204,735,000 (based on the last reported sale price of the Registrant's common stock on that date as reported by NASDAQ).

As of January 25, 2014, there were 54,761,000 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 2014 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 and the term "bedding accessories" includes sheets, pillows, headboards, frames, mattress pads and related products.

Sleep Number®, Select Comfort®, Double Arrow logo, Know Better Sleep℠, Sleep IQ™, AirFit™, Comfort.Individualized.℠, ComfortFit®, CoolFit™, DualAir Technology Inside logo, DualAir™, DualTemp™, Comfortaire®, Dreamaire®, Firmness Control™ System, FlexFit™, Grand King®, In Balance™, IndividualFit®, Individualized Sleep Experiences®, LuxFit™, Pillow [ology]®, PillowFit®, PlushFit™, Sleep Number Inner Circle®, Take Control of Your Sleep®, Tech-e™, The Only Bed That Knows You℠, What's Your Sleep Number?®, 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 2008 fiscal year ended January 3, 2009, 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 Web casts open to the public, in press releases or reports, on our Internet Web site 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. We believe that we are leading the industry in delivering an unparalleled sleep experience. We offer consumers high-quality, innovative and individualized sleep solutions and services, which include a complete line of SLEEP NUMBER® beds and bedding.

The Company is the exclusive manufacturer, marketer, retailer and servicer of the revolutionary Sleep Number bed, which allows individuals to adjust the firmness and support on each side at the touch of a button. We offer further individualization through our new sleep tracking technology, SleepIQ™, and a solutions-focused line of Sleep Number pillows, sheets, adjustable bases, and other bedding products, including the innovative DualTemp™ temperature-balancing layer.

Select Comfort has evolved from a specialty, niche direct marketer, to a nationwide vertically integrated business model that includes manufacturing, retail and service with fiscal 2013 net sales of $960 million. As the only national specialty-mattress retailer, consumers can take advantage of a value added mattress-buying experience at one of our 440 SLEEP NUMBER® retail stores across the country, online at www.*SleepNumber.com*, or via phone through our direct sales number at 1-888-411-2188.

In 1998, Select Comfort became a publicly traded company and is 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.

In 2009, 2010, 2011, 2012 and 2013, we generated operating income of $20.7 million, $52.4 million, $90.5 million, $119.8 million and $90.7 million, respectively. As of December 28, 2013, cash, cash equivalents and marketable debt securities totaled $145.0 million and we had no borrowings under our revolving credit facility.

On January 17, 2013, we completed the purchase of the business and assets of Comfortaire Corporation, a manufacturer and marketer of adjustable air-supported sleep systems. We purchased Comfortaire to advance our innovation leadership in individualized comfort. The acquisition price was $15.5 million. Comfortaire Corporation was a privately held company with 2012 net sales of $10.5 million. The purchase of Comfortaire's business and assets did not have a significant impact on our consolidated results of operations, cash flows or financial position.

Proprietary Products

Sleep Number Bed

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. 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.

The unique 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 series to fit all budgets, with queen size mattresses starting at $699.

- The Classic Series launched a sleep revolution with personal adjustability at an affordable price. The series includes the Sleep Number c2, c3 and c4 beds.
- The Performance Series includes our most popular beds, featuring enhanced performance, comfort and a great value. The series includes the Sleep Number p5 and p6 beds.
- The Innovation Series is the premier experience in personalized comfort combined with leading-edge innovations in sleep technology. The series includes the Sleep Number i8 and i10 beds.
- The Memory Foam Series combines cradling memory foam with exclusive DualAir technology. The series includes the Sleep Number m7 bed.

In January 2014, we introduced our most advanced Sleep Number bed, the x12, at the International Consumer Electronics Show (CES). The Sleep Number x12 bed with SleepIQ™ technology is a breakthrough advancement in sleep technology, providing consumers with simple and intuitive knowledge of how they slept and what changes they can make to achieve their very best sleep. In addition to SleepIQ, the Sleep Number x12 bed combines three other new and proprietary technologies with the Company's core DualAir™ technology to deliver the ultimate, comfortable sleep experience. These include the exclusive FlexFit™ adjustable base technology, FlexTop™ mattress design, and a communication platform that brings together all of these technologies and provides control through a single universal remote or with simple voice commands.

Sleep Number Bedding Collection

Like our Sleep Number beds, our exclusive Sleep Number® bedding collection is a proprietary line of products that are designed to meet each individual's needs. Create Your Perfect Pillow℠ and our AirFit™ pillow adjust to an individual's size, shape and sleeping position for more comfortable sleep. The pillows are available in our exclusive CoolFit™ foam, memory fiber or white goose down. We also offer Create Your Perfect Comforter℠.

In 2013, we introduced the breakthrough DualTemp™ layer, a new product that addresses one of the most significant sleep issues experienced by customers - sleeping too hot or sleeping too cold. DualTemp attracts new customers to our brand and stores while also engaging our current customers. The DualTemp layer can be used with any mattress brand.

FlexFit Adjustable Bases

We offer a full line of FlexFit™ adjustable bases which enable customers to raise the head or foot of the bed, and to experience the comfort of massage, using a handheld remote control.

Exclusive Distribution

Unlike traditional mattress manufacturers, which primarily sell through third-party retailers, over 96% of our net sales are through our Company-Controlled distribution channel (Retail, Direct Marketing and E-Commerce).

Our retail stores accounted for 89% of our net sales in 2013. Average annual net sales per comparable store have doubled since 2009 and were $2,093,000 in 2013 versus $2,164,000 in 2012, $1,721,000 in 2011, $1,295,000 in 2010 and $1,046,000 in 2009. In 2013, 96% of our stores open for a full year generated net sales over $1,000,000 and 46% of our stores open for a full year generated net sales over $2,000,000.

As of December 28, 2013, we had 440 retail stores in the U.S., and expect to end 2014 with between 460 and 470 retail stores. We are taking both a national and local market-based approach to our growth – national advertising combined with local marketing, real estate optimization and sales execution – to increase market share. We believe that through marketing and sales execution, we can continue to increase average sales per store to further leverage the profitability of our fixed cost store base.

Historically, our retail stores have been located in shopping malls. In 2010, we began operating in non-mall locations. As of December 28, 2013, 31% of our stores were in non-mall locations. The non-mall store format is typically located in highly visible, well-traveled locations and is intended to complement our existing mall-based stores. The non-mall format provides more flexibility to our real estate strategy.

Our direct marketing call center and E-Commerce website provide national sales coverage, including markets not yet served by one of our retail stores, and accounted for 7% of our net sales in 2013.

Operations

Manufacturing and Distribution

We have two manufacturing plants (one in Irmo, South Carolina and the other in 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 have one manufacturing plant in Greensboro, South Carolina which distributes Comfortaire products. The manufacturing operations consist of final assembly and packaging of mattresses and bases.

We manufacture beds primarily on a just-in-time basis to fulfill orders rather than stocking inventory, which enables us to maintain lower levels of finished goods inventory and operate with limited regional warehousing. Orders are shipped, typically within 48 hours following order receipt, from our manufacturing facilities via UPS or through our home delivery service. Products are usually received by the customer within five to 14 days from the date of order.

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 bases, and 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. In 2005, we began identifying secondary sources in order to provide continuity of supply for various components. We will continue to utilize dual sourcing on targeted components when effective.

Our proprietary air chambers are produced to our specifications by an Eastern European supplier, which has been our primary source of supply of air chambers since 1994. Our agreement with this supplier runs through June 2016 and is thereafter subject to automatic annual renewal unless either party gives 365 days' notice of its intention not to renew the agreement. We expect to continue this supplier relationship for the foreseeable future.

Our proprietary blow-molded bases are produced to our specifications by a single domestic supplier under an agreement that expires in December 2015. We expect to continue this supplier relationship for the foreseeable future.

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.

Home Delivery Service

We offer Sleep Number Comfort Service℠ Home Delivery & Setup, which includes assembly and mattress removal. In some markets on the East Coast, we provide home delivery, assembly and mattress removal services through a third-party provider. Approximately 76% of beds sold through our Company-Controlled channel in 2013 were delivered by our full-service home delivery team or by our third-party service provider.

Customer Service

We maintain an in-house customer service department staffed by customer service specialists who receive training in sleep technology and all aspects of our products and operations. Our customer service specialists field customer calls and emails, “live chat,” and monitor social media. Our customer service team is part of our total quality process, facilitating early identification of emerging trends or issues. They coordinate with engineering, sourcing, manufacturing, and our Six Sigma team to segment these issues, implement immediate solutions and provide inputs for long-term improvements to product and service design.

Research and Development

Sleep Number uses systematic approaches to understand consumer needs as well as customers' responses to key features and benefits. Extensive consumer research is conducted from the product concept through the customer product ownership experience. Since the introduction of our first bed, we have continued to improve and expand our product lines to offer new beds and adjustable models as well as complete bedding collection assortments. Our research and development expenses were $9.5 million in 2013, $6.2 million in 2012 and $4.2 million in 2011.

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 point of sale system, a retail portal system, an order entry 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 comprised of both packaged applications licensed from various software vendors and internally developed programs. We are currently engaged in a multi-year project to upgrade our core information technology 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, border wall and corner piece systems, foundation systems, as well as other technology. We have 24 issued U.S. patents, expiring at various dates between July 2014 and September 2028, and 23 U.S. patent applications pending. We also hold 36 foreign patents and have six foreign 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.

Select Comfort®, Sleep Number® and the double arrow logo are trademarks registered with the U.S. Patent and Trademark Office. We have a number of other registered trademarks including Comfortaire®, ComfortFit®, DualTemp™, Grand King®, IndividualFit®, Individualized Sleep Experiences®, Pillow[ology]®, PillowFit®, Sleep Number Inner Circle®, Take Control of Your Sleep® and What’s Your Sleep Number?®. Several trademarks are the subject of pending applications including Sleep IQ™, AirFit™, Comfort.Individualized. ℠, DualAir Technology Inside logo, Know Better Sleep℠, LuxFit™, PlushFit™, Tech-e™ and The Only Bed That Knows You℠. Each registered mark is renewable indefinitely as long as the mark remains in use. We also have a number of common law trademarks including CoolFit™, DualAir™, Firmness Control™ System, FlexFit™, In Balance™ and our bed model names. We are not aware of any material claims of infringement or other credible challenges asserted against us or our right to use these marks.

Industry and Competition

The U.S. bedding industry is a mature and generally stable industry. According to the International Sleep Products Association (“ISPA”), since 1984 the bedding manufacturing industry has consistently demonstrated growth on a dollar basis, with a 0.3% decline in 2001, 9.1% decline in 2008 and 9.0% decline in 2009 being the only exceptions. According to ISPA, industry wholesale shipments of mattresses and foundations were estimated to be $7.0 billion in 2013 compared to $6.8 billion in 2012. We estimate that traditional innerspring mattresses represent approximately 68% of total U.S. bedding sales (based on 2012 sales). *Furniture/Today,* a furniture industry trade publication, has ranked Select Comfort as the fifth largest mattress manufacturer and third largest U.S. bedding retailer for 2012, with a 5.2% market share of industry revenue and 1.6% market share of industry units.

Over the 5-year, 10-year and 20-year periods ended 2013, the value of U.S. wholesale bedding shipments increased at compound annual growth rates of 2.2%, 3.1% and 4.7%, respectively. 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.

The bedding industry is very competitive. Participants in the bedding industry compete primarily 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 the largest manufacturers of innerspring bedding with nationally recognized brand names, including Sealy, Stearns & Foster, Serta and Simmons. Numerous other manufacturers, primarily operating on a regional or niche basis, serve the balance of the innerspring bedding market. During 2013, Tempur-Pedic completed the acquisition of Sealy and now offers an air-supported mattress. Tempur Sealy International, Inc., the fourth largest bedding manufacturer (based on 2012 sales, prior to the acquisition of Sealy), and a number of other mattress manufacturers, offer foam mattress products. Simmons and Sealy, as well as a number of smaller manufacturers, have offered air-bed products in the past. The retail bedding industry is also highly competitive. Our Company-Controlled distribution channel, which includes our retail stores, competes against regional and local specialty bedding retailers, home furnishing stores, mass merchants and national discount stores. We compete principally on the differentiation and quality of our products, customer service and value pricing.

Governmental Regulation and Environmental Matters

Our operations are subject to federal and state consumer protection and other regulations relating to the bedding industry. These regulations vary among the jurisdictions in which we do business, but generally impose requirements as to the proper labeling of bedding merchandise.

The bedding industry is subject to federal fire retardant standards developed by the U.S. Consumer Product Safety Commission, which became effective nationwide in July 2007. Compliance with these requirements has increased the cost and complexity of manufacturing our products. These regulations also result in higher product development costs as new products must undergo rigorous flammability testing.

Federal regulations adopted in 2010 restrict the types of credit-based promotional offerings that retailers are allowed to make available to consumers.

Our direct marketing and internet-based marketing operations are or may become subject to various adopted or proposed federal and state “do not call” and “do not mail” list requirements, limiting our ability to market our products directly to consumers over the telephone, by e-mail or by regular mail. Additionally, existing federal laws governing telephone and mail order sales may be extended to encompass all internet sales, imposing compliance obligations on the timing of shipments as well as provisions of refunds to consumers.

We are subject to emerging federal, state and foreign data privacy regulations related to the safeguarding of sensitive customer and employee data, which may drive increased costs in our information systems infrastructure.

We are subject to federal and state labor laws, including but not limited to laws relating to occupational health and safety, employee privacy, wages and hours, overtime pay, harassment and discrimination, equal opportunity, and employee leaves and benefits.

We are subject to federal and state laws and regulations relating to pollution and environmental protection. We may also be subject to similar laws in foreign jurisdictions if we expand our operations internationally.

Our retail pricing policies and practices are subject to antitrust regulations in the U.S., and we may become subject to similar laws in other jurisdictions where we may sell our products in the future.

We are or may become subject to various adopted or proposed federal and state laws and regulations relating to supply chain transparency with respect to the sourcing of conflict minerals and labor conditions maintained by suppliers, which may result in increased compliance costs and increased component costs.

Adopted or proposed legislation in various states would impose responsibilities with respect to end-of-life disposal of various consumer or durable goods on the manufacturers and/or retailers of such goods, including mattresses. To the extent that any such legislation becomes effective in the states in which we sell or have sold mattresses and related products, we may be required to incur significant costs and operational changes in order to comply with these requirements, which may adversely impact our profitability, cash flows and financial condition.

Although we believe that we are in compliance in all material respects with these regulations and have implemented a variety of measures to promote continuing compliance, regulations may change over time, and we may be required to incur expenses and/or to modify our operations in order to ensure compliance with these regulations, which could harm our profitability and financial condition. If we are found to be in violation of any of the foregoing laws or regulations, we could become subject to fines, penalties, damages or other sanctions, as well as potential adverse public relations, which could adversely impact our business, reputation, sales, profitability and financial condition.

We are not aware of any national or local provisions which have been enacted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, that have materially affected, or will materially affect, our net income or competitive position, or will result in material capital expenditures. During fiscal 2013, there were no material capital expenditures for environmental control facilities, and no such material expenditures are anticipated.

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 and increased sales during selected holiday or promotional periods.

Working Capital

Selling directly to our customers, with a primarily just-in-time, build-to-order production process in our plants, and with retail stores that serve mainly as showrooms, allows us to maintain low inventory levels and operate with minimal working capital requirements. We have historically generated sufficient cash flows to self-fund operations through an accelerated cash-conversion cycle. As of December 28, 2013, we had $20.0 million available under our $20.0 million credit facility which contains an accordion feature that allows us to increase the amount of the line up to $50.0 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 GE Capital Retail Bank. Approximately 40% of our net sales in 2013 were financed by GE Capital Retail Bank. Our current agreement with GE Capital Retail Bank expires February 15, 2016, subject to earlier termination upon certain events and subject to automatic extensions. We pay GE Capital Retail Bank a fee for extended credit promotional financing offers. Under the terms of our agreement, GE Capital Retail 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 GE Capital Retail Bank, at no time are the receivables purchased or acquired from us. We are not liable to GE Capital Retail Bank for our customers' credit defaults. In connection with all purchases financed under these arrangements, GE Capital Retail 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 GE Capital Retail Bank may apply for credit under a secondary program that we offer through another provider.

Employees

At December 28, 2013, we employed 2,858 persons, including 1,544 retail sales and support employees, 213 direct marketing and customer service employees, 751 manufacturing and logistics employees, and 350 management and administrative employees. Approximately 88 of our employees were employed on a part-time basis at December 28, 2013. Except for managerial employees and professional support staff, all of our employees are paid on an hourly basis (plus commissions for sales professionals). None of our employees is 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 is important to driving both organizational productivity and customer satisfaction.

Executive Officers of the Registrant

Shelly R. Ibach, 54, has served as President and Chief Executive Officer since June 2012 having previously served as Executive Vice President, Chief Operating Officer since June 2011 and as Executive Vice President, Sales & Merchandising since October 2008. Ms. Ibach joined Select Comfort as Senior Vice President, U.S. Sales - Company Owned Channels in April 2007. Prior to joining Select Comfort, Ms. Ibach was Senior Vice President and General Merchandise Manager for Macy's home division. From 1982 to 2005, Ms. Ibach held various leadership positions within Target Corporation at Marshall Field's Department Stores. Other key positions included Vice President - Divisional Merchandise Manager, Director of Planning and Regional Director of Stores.

Andrea L. Bloomquist, 44, has served as the Senior Vice President and Chief Product Officer for Select Comfort since June 2012 and leads product innovation including product management, development, merchandise buying and R&D for all Sleep Number products. 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 1996-2008.

Kevin K. Brown, 45, has served as the Senior Vice President and Chief Marketing Officer for Select Comfort since January 2014. 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. From 2004 to 2006, Mr. Brown held the position of Senior Vice President, Marketing for Jo-Ann Stores, Inc. Prior to Jo-Ann Stores, he was an associate partner for Accenture.

Andrew P. Carlin, 50, has served as the Senior Vice President and Chief Sales Officer for Select Comfort since June 2012 and leads all sales channels and real estate. 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 2003-2008, Kohl's Department Stores from 1995-2003 and Target Corporation from 1986-1995.

Mark A. Kimball, 55, has served as Select Comfort's Senior Vice President and Chief Legal and Risk Officer and Secretary since June 2011. 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.

Kathryn V. Roedel, 53, has served as Select Comfort's Executive Vice President and Chief Services and Fulfillment Officer since June 2011. From October 2008 to June 2011 Ms. Roedel served as Select Comfort's Executive Vice President, Product and Service. Ms. Roedel joined Select Comfort as the company's Senior Vice President, Global Supply Chain in April 2005. From 2003 to March 2005, Ms. Roedel served as the General Manager, Global Supply Chain Strategy for GE Medical Systems. From 1983 to 2003, she held leadership positions within two divisions of General Electric Company, in Sourcing, Manufacturing, Quality and Service. Other key positions included General Manager, Global Quality and Six Sigma; Vice President of Technical Operations and Director/Vice President of Quality Programs for GE Clinical Services, a division of GE Medical Systems.

Wendy L. Schoppert, 47, has served as Select Comfort's Executive Vice President and Chief Financial Officer since May 2011. From March 2008 to June 2011, Ms. Schoppert served as the company's Senior Vice President, Chief Information Officer. She served as the company's Senior Vice President, International from January 2007 to March 2008. Ms. Schoppert joined Select Comfort as Senior Vice President and General Manager, New Channel Development & Strategy in April 2005. From 2002 to March 2005, Ms. Schoppert led various departments within U.S. Bancorp Asset Management, most recently serving as Head of Private Asset Management and Marketing. From 1996 to 2000, she held several positions with America West Holdings Corporation, including Vice President of America West Vacations and head of the airline's Reservations division. Prior to 1996, Ms. Schoppert held various finance-related positions at both Northwest Airlines and American Airlines. On November 12, 2013, Ms. Schoppert announced her plans to resign from her position at Select Comfort in 2014.

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 "*Investor Relations*" 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 "*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 consumer confidence, the housing market, employment 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 have experienced a significant degree of variability in the effectiveness and efficiency of our marketing messages and advertising expenditures in recent years and may continue to experience such variability in the future. We continue to evolve our marketing strategies, adjusting our messages, the amount we spend on advertising and where we spend it, and no assurance can be given that we will be successful in developing effective messages and in achieving efficiency in our advertising expenditures.

We also believe that consumers are increasingly using the Internet 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 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; and (iv) the stability of our website.

If our marketing messages are ineffective or our advertising expenditures and other marketing programs, including Internet-based programs, are inefficient in creating awareness of our products and brand name, in driving consumer traffic to our points of sale and in motivating consumers to purchase 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.

Our stores are largely 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 440 retail stores across the continental United States as of the end of 2013. 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 represent a significant departure from traditional innerspring mattresses and from viscoelastic foam mattresses, which have no moving parts 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 products company, we face an inherent risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in personal injury or property damage. In the event that 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 in the event 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.

As described in greater detail below, the mattress industry is 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 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.

Significant competition in our industry could adversely affect our business.

Because of the vertical integration of our business model, our products and stores, as well as other points of sale, face significant competition with both a number of different types of mattress alternatives and a variety of retailers.

The mattress industry is characterized by a high degree of concentration among the two largest manufacturers of innerspring mattresses and viscoelastic foam mattresses. We believe that several of our competitors have greater financial, marketing and manufacturing resources and better brand name recognition than we do and sell products through broader and more established distribution channels. A number of mattress manufacturers, including several of these larger competitors, have offered adjustable firmness air beds in the past, and the largest manufacturer of viscoelastic foam mattresses recently introduced adjustable firmness air beds that compete directly with our products. We believe several of the larger mattress manufacturers may also be pursuing plans to open their own retail stores to compete directly with our retail stores.

Our Company-Controlled distribution channel 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.

These manufacturing and retailing competitors, or new entrants into the market, may compete aggressively and gain market share with existing or new mattress products, and may pursue or expand their presence in the adjustable firmness air bed segment of the market. 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 bedding manufacturers and other retailers, 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 also own several registered and unregistered trademarks and trademark applications, including in particular our *Sleep Number* trademarks, 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 and may not prevent our competitors from developing and marketing products that are similar to or competitive with our beds or other products. Our patents are also subject to varying expiration dates. In particular, our patents related to wireless remote control systems with digital displays will expire in November of 2014 and other patents will expire on various dates through September 2028. 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 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 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 recent economic downturn resulted in a reduction of credit available to consumers as macroeconomic factors impacted the financial position of consumers and as suppliers of credit adjusted 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.

GE Capital Retail Bank provides credit to our customers through a private label credit card agreement that is currently scheduled to expire on February 15, 2016, subject to earlier termination upon certain events. GE Capital Retail 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 GE Capital Retail 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 that may harm our ability to satisfy consumer demand and may adversely impact our sales and profitability.

We generally assemble our products after we receive orders from customers utilizing "just-in-time" manufacturing processes with minimal levels of raw materials, work in process 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. 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 either the primary supplier of our air chambers or the supplier of our blow-molded 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 unit 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 manufacturing facilities could increase our costs of doing business or lead to delays in shipping our beds.

We have three manufacturing plants, which are located in Irmo, South Carolina, Salt Lake City, Utah and Greensboro, SC. We generally manufacture beds to fulfill orders rather than stocking finished goods inventory in our plants or stores. Therefore, the disruption of operations of either of our 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 manufacturing and retail operations are subject to a wide variety of government regulations which could increase costs or cause disruptions to our operations.

We are subject to a wide variety of government regulations relating to the bedding industry or to various aspects of our business and operations, including without limitation, regulations relating to the proper labeling of bedding merchandise; flammability standards applicable to mattresses; environmental and product safety regulations; consumer protection and data privacy regulations; various “do not call” or “do not mail” list requirements; labor laws, including but not limited to laws relating to occupational health and safety, employee privacy, wages and hours, overtime pay, harassment and discrimination, equal opportunity, and employee leaves and benefits; and import and export regulations.

Although we believe that we are in compliance in all material respects with these regulations and have implemented a variety of measures to promote continuing compliance, regulations may change over time, and we may be required to incur expenses and/or to modify our operations in order to ensure compliance with these regulations or we may be found to be in violation of the foregoing laws or regulations, which could harm our sales, profitability, cash flows and financial condition.

Adopted or proposed legislation in various states would impose responsibilities with respect to end-of-life disposal of various consumer or durable goods on the manufacturers and/or retailers of such goods, including mattresses. To the extent that any such legislation becomes effective in the states in which we sell or have sold mattresses and related products, we may be required to incur significant costs and operational changes in order to comply with these requirements, which may adversely impact our profitability, cash flows and 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 standard, 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.

Our management information systems may not be adequate to meet the evolving needs of our business as well as existing and emerging regulatory requirements. Improvements and upgrades to our systems will 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. Our current information systems architecture includes some off-the-shelf programs as well as some key software that has been developed by our own programmers, using legacy programming languages that are no longer vendor-supported. Our business may be adversely affected if our management information systems are disrupted or if we are unable to improve, upgrade, integrate or expand our systems to meet the evolving needs of our business and existing and emerging regulatory requirements.

We are incurring significant capital expenditures in the pursuit of improvements and 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 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 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 preventative 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.

Our charter and corporate documents and Minnesota law make a takeover of our company more difficult and expensive, which may prevent certain changes in control and limit the market price of our common stock.

Our charter, bylaws, certain corporate documents and sections 671 and 673 of the Minnesota Business Corporation Act contain provisions that might enable our management to resist a takeover of our company or which may increase the cost of an acquisition of our company. Provisions in our amended and restated articles of incorporation and amended and restated bylaws may discourage, delay or prevent a merger or acquisition involving us that our shareholders may consider favorable. For example, our amended and restated articles of incorporation authorize five million undesignated shares. Without shareholder approval, our board of directors has the authority to create a class or series of shares from the undesignated shares and to set the terms of the class or series, including voting and dividend rights. With these rights, it could be more difficult for a third party to acquire us. In addition, our amended and restated articles of incorporation provide for a staggered board of directors, with directors serving for three-year terms and approximately one-third of the directors coming up for re-election each year. Having a staggered board will make it more difficult for a third party to obtain control of our board of directors through a proxy contest, which may be a necessary step in any acquisition of us that is not favored by our board of directors. In addition, we have a severance plan that may provide certain employees and executive officers with severance compensation if they are terminated in connection with a change in control of our company and stock award plans that may provide for the acceleration of vesting of incentive stock awards in the event of termination of employment or other adverse effects upon the employment terms of employees and executive officers following a change in control of our company. The existence of these provisions could discourage or prevent a change in control of our company, could make a change in control of our company more difficult and expensive and could limit the price that investors might be willing to pay in the future for shares of our common stock.

Risks of certain global events, such as terrorist attacks or a pandemic outbreak, could adversely impact our sales, profitability, financial condition or stock price.

Additional terrorist attacks in the United States or against U.S. targets, or acts of war or threats of war or the escalation of current hostilities involving the United States or its allies, or military or trade disruptions impacting our domestic or foreign suppliers of components of our products, may adversely impact our operations, causing delays or losses in the delivery of merchandise to us and decreased sales. These events could also cause an increase in oil or other commodity prices, which could adversely affect our materials or transportation costs, including the costs of delivery of our products to customers.

A significant pandemic outbreak, or a perceived threat of such an outbreak, could cause significant disruptions to our supply chain, manufacturing capability and distribution system that could adversely impact our ability to produce and deliver products, which could result in a loss of sales and adversely impact our profitability, cash flows and financial condition.

Any of these events could adversely impact consumer confidence and spending or result in increased volatility in the U.S. and worldwide financial markets. These events also could cause, or deepen and prolong, an economic recession in the United States or abroad. Any of these occurrences could have an adverse impact on our sales, profitability, financial condition or stock price.

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. Our store leases generally provide for an initial lease term of five to ten years with a termination option if we do not achieve certain minimum annual sales thresholds. Generally, mall store leases require us to pay minimum rent plus percentage rent based on net sales in excess of certain thresholds, as well as certain operating expenses.

The following table summarizes the geographic location of our 440 retail stores as of December 28, 2013:

	Retail Stores		Retail Stores		Retail Stores
Alabama	4	Louisiana	7	North Carolina	12
Arizona	8	Maine	2	North Dakota	2
Arkansas	3	Maryland	11	Ohio	18
California	58	Massachusetts	5	Oklahoma	4
Colorado	11	Michigan	13	Oregon	6
Connecticut	7	Minnesota	13	Pennsylvania	18
Delaware	2	Mississippi	4	Rhode Island	1
Florida	27	Missouri	13	South Carolina	4
Georgia	14	Montana	2	South Dakota	1
Idaho	2	Nebraska	3	Tennessee	9
Illinois	19	Nevada	4	Texas	37
Indiana	11	New Hampshire	4	Utah	3
Iowa	7	New Jersey	14	Vermont	1
Kansas	4	New Mexico	3	Virginia	11
Kentucky	6	New York	12	Washington	10
				Wisconsin	10
				Total	440

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 2017 with two five-year renewal options.

We also lease approximately 122,000 square feet in the Minneapolis, Minnesota area that includes our research and development department, and a distribution center that accepts returns, fulfills accessory orders and processes warranty claims. This lease expires in 2017 and contains one five-year renewal option.

We lease two manufacturing and distribution centers in Irmo, South Carolina and Salt Lake City, Utah of approximately 105,000 square feet and approximately 101,000 square feet, respectively. We lease the Irmo facility through February 2016, and the Salt Lake City facility through July 2015, with a five-year renewal option thereafter.

We also 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 February 28, 2015, with a one-year renewal option thereafter.

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 results of operations, financial position or cash flows. We expense legal costs as incurred.

On August 23, 2013, we filed a complaint in U.S. District Court in the District of Minnesota against Gentherm, Inc. seeking a declaratory judgment that Select Comfort be named as an assignee of certain patents asserted against Select Comfort by Gentherm or in the alternative that the asserted patents are not enforceable or are invalid or that Select Comfort and its products do not infringe any valid claim of the asserted patents. This complaint was filed after Gentherm asserted in a letter that Select Comfort's recently introduced DualTemp™ layer product infringed certain patents owned by Gentherm. Subsequently, Gentherm filed counterclaims alleging infringement of its patents and seeking various legal and equitable remedies, including injunctive relief, treble damages and attorney's fees. We believe the claims asserted by Gentherm are without merit, and we intend to vigorously pursue our claims and defend the claims asserted by Gentherm.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II
ITEM 5. MARKET FOR THE 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 25, 2014, there were approximately 209 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 2013				
High	$ 28.22	$ 25.80	$ 27.55	$ 26.02
Low	17.16	17.56	21.01	18.04
Fiscal 2012				
High	$ 33.20	$ 35.24	$ 33.58	$ 33.16
Low	22.15	19.33	21.10	24.48

We are not restricted from paying cash dividends under our credit agreement other than customary legal and contractual restrictions. 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 2013 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
September 29, 2013 through October 26, 2013	141,996	$ 22.43	141,660	$ 143,535,000
October 27, 2013 through November 23, 2013	164,470	19.32	164,470	140,357,000
November 24, 2013 through December 28, 2013	175,102	20.87	175,102	136,702,000
Total	481,568	$ 20.80	481,232	$ 136,702,000

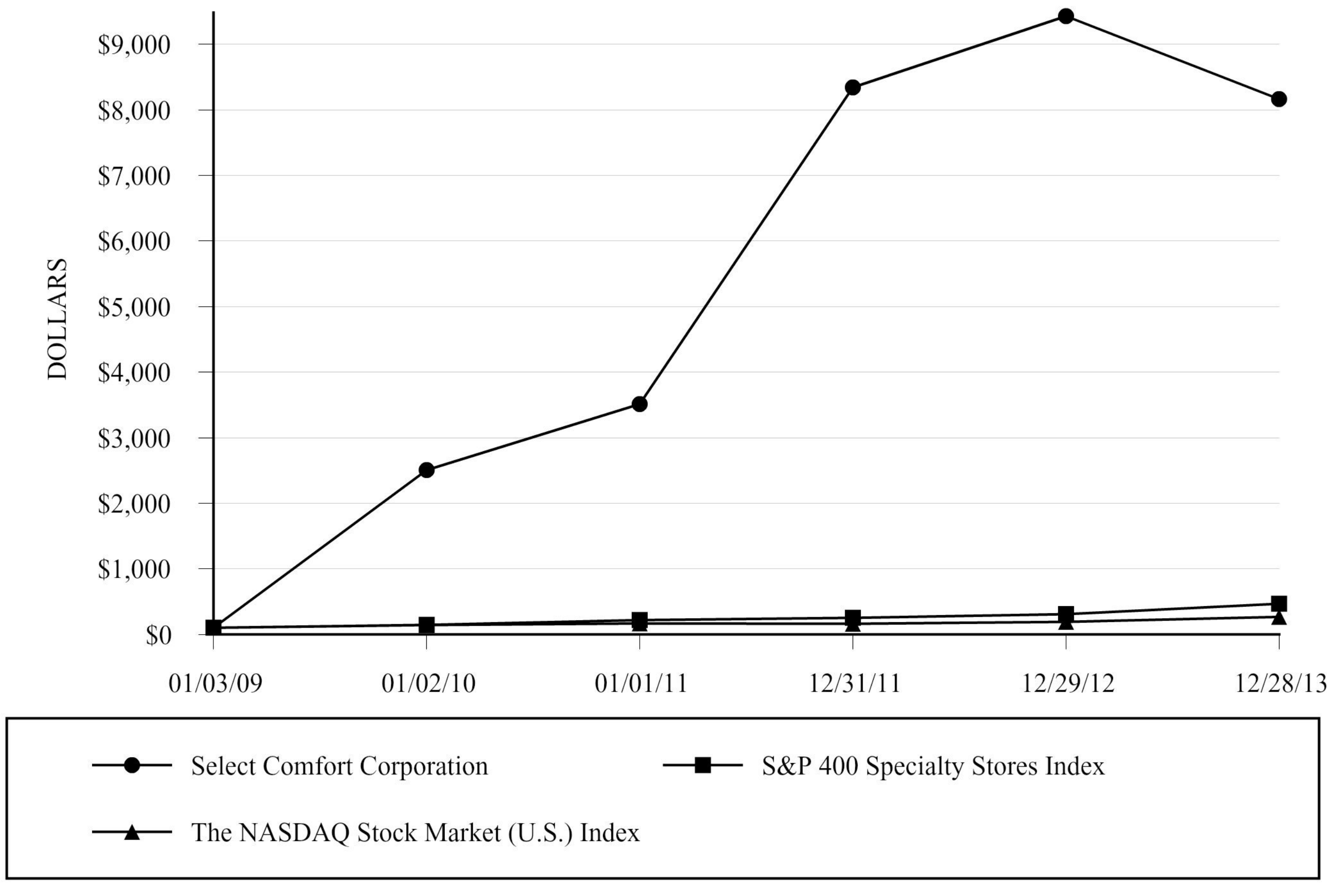
(1) Under the current Board-approved $290.0 million share repurchase program, we repurchased 481,232 shares of our common stock at a cost of $10.0 million (based on trade dates) during the three months ended December 28, 2013. As of December 28, 2013, the remaining authorization under our Board-approved share repurchase program was $136.7 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.

(2) In connection with the vesting of employee restricted stock grants, we also repurchased 336 shares of our common stock at a cost of $8 thousand, during the three months ended December 28, 2013.

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 January 3, 2009. 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



	1/3/2009	1/2/2010	1/1/2011	12/31/2011	12/29/2012	12/28/2013
Select Comfort Corporation	$ 100	$ 2,508	$ 3,512	$ 8,342	$ 9,427	$ 8,162
S&P 400 Specialty Stores Index	100	147	221	253	308	466
The NASDAQ Stock Market (U.S.) Index	100	140	166	164	189	269

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					
	2013	2012	2011	2010	2009	2008[(1)]
Consolidated Statements of Operations Data:						
Net sales	$ 960,171	$ 934,978	$ 743,203	$ 605,676	$ 544,202	$ 608,524
Gross profit	601,755	596,546	470,345	378,263	335,460	358,572
Operating expenses:						
Sales and marketing	439,156	398,205	317,502	269,901	259,244	332,068
General and administrative	62,840	66,617	58,106	53,572	49,560	57,994
Research and development	9,478	6,194	4,175	2,147	1,973	3,374
Asset impairment charges	127	148	109	260	686	34,594
Other[(2)(3)]	(534)	5,595	—	—	3,324	—
Operating income (loss)	90,688	119,787	90,453	52,383	20,673	(69,458)
Net income (loss)	$ 60,081	$ 78,094	$ 60,478	$ 31,568	$ 35,552	$ (70,177)
Net income (loss) as adjusted[(8)]	$ 59,730	$ 81,748	$ 60,478	$ 31,568	$ 11,169	$ (23,174)
Net income (loss) per share:						
Basic	$ 1.10	$ 1.41	$ 1.10	$ 0.58	$ 0.78	$ (1.59)
Diluted	$ 1.08	$ 1.37	$ 1.07	$ 0.57	$ 0.77	$ (1.59)
Diluted - as adjusted[(8)]	$ 1.07	$ 1.43	$ 1.07	$ 0.57	$ 0.24	$ (0.52)
Shares used in calculation of net income (loss) per share:						
Basic	54,866	55,516	55,081	54,005	45,682	44,186
Diluted	55,803	57,076	56,432	55,264	46,198	44,186
Consolidated Balance Sheet Data:						
Cash, cash equivalents and marketable debt securities[(4)]	$ 145,014	$ 177,821	$ 146,317	$ 76,016	$ 12,184	$ 10,987
Working capital	52,357	77,517	72,145	20,053	(25,435)	(90,534)
Total assets	381,765	342,021	262,657	169,957	118,240	135,413
Borrowings under revolving credit facility	—	—	—	—	—	79,150
Total shareholders' equity (deficit)	225,220	193,697	129,391	57,977	22,458	(41,630)
Selected Operating Data:						
Stores open at period-end	440	410	381	386	403	471
Stores opened during period	71	57	19	7	4	19
Stores closed during period	41	28	24	24	72	26
Average net sales per store (000's)[(5)]	$ 2,093	$ 2,164	$ 1,721	$ 1,295	$ 1,046	$ 984
Percentage of stores with more than $1.0 million in net sales[(5)]	96 %	98%	93%	70%	48 %	45 %
Percentage of stores with more than $2.0 million in net sales[(5)]	46 %	49%	24%	7%	2 %	2 %
Average net sales per mattress unit - Company-Controlled channel[(6)]	$ 3,245	$ 3,050	$ 2,694	$ 2,424	$ 2,369	$ 2,370
Company-Controlled comparable-sales (decrease) increase[(7)]	(4)%	23%	26%	19%	(4)%	(26)%
Average square footage per store open during period[(5)]	1,985	1,670	1,526	1,484	1,474	1,410
Net sales per square foot[(5)]	$ 1,077	$ 1,324	$ 1,135	$ 873	$ 710	$ 703
Average store age (in months at period-end)	102	113	113	113	102	91
Earnings before interest, depreciation and amortization ("Adjusted EBITDA")[(8)]	$ 125,020	$ 150,285	$ 109,180	$ 69,675	$ 42,289	$ (9,437)
Free cash flows[(4)(8)]	$ 11,294	$ 49,033	$ 67,519	$ 64,058	$ 60,717	$ (26,381)

(1) Fiscal year 2008 had 53 weeks. All other fiscal years presented had 52 weeks.

(2) In February 2012, we announced that William R. McLaughlin, then President and Chief Executive Officer, 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) in 2012. The performance-based stock awards are subject to applicable performance adjustments (through 2014) based on free cash flow and actual market share growth versus performance targets. 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.

(3) In 2009, we expensed $3.3 million ($2.1 million, net of income tax) of direct, incremental costs incurred in connection with a terminated equity financing transaction.

(4) At the beginning of 2011, we changed our accounting policy for payments due from financial services companies for credit card and debit card transactions. Historically, at each reporting period, we classified all credit card and debit card transactions that processed in less than seven days as cash and cash equivalents on our consolidated balance sheets. We now classify these credit card and debit card transactions as accounts receivable until the cash is received. All previous periods have been restated to conform to the current year presentation.

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

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

(7) 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 359, 348, 359, 379, 399 and 452 for 2013, 2012, 2011, 2010, 2009 and 2008, respectively. Fiscal 2008 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.

(8) 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 21 and 22 for the reconciliation of these non-GAAP measures to the appropriate GAAP measure.

Non-GAAP Data Reconciliations

Reported to Adjusted Statements of Operations Data
(in thousands, except per share amounts)

In addition to disclosing results that are determined in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”), we also disclose non-GAAP results that exclude certain significant charges or credits. Our "as adjusted" data is considered a non-GAAP financial measure and is not in accordance with, nor preferable to, "as reported," or GAAP financial data. However, we believe that the disclosure of results excluding certain significant charges or credits provides additional insights into underlying business performance and facilitates year-over-year comparisons. Below are reconciliations of our non-GAAP financial measures to the most comparable GAAP financial measures.

	Year					
	2013	**2012**	**2011**	**2010**	**2009**	**2008**
Net income (loss) – as reported	$ 60,081	$ 78,094	$ 60,478	$ 31,568	$ 35,552	$ (70,177)
Adjustments – net of income tax [(1)]:						
CEO transition (benefit) costs[(2)]	(351)	3,654	—	—	—	—
Terminated equity financing costs [(3)]	—	—	—	—	2,061	—
Impairments [(4)]	—	—	—	—	—	20,163
Income tax valuation [(5)]	—	—	—	—	(26,444)	26,840
Net income (loss) – as adjusted	$ 59,730	$ 81,748	$ 60,478	$ 31,568	$ 11,169	$ (23,174)
Net income (loss) per share – as adjusted:						
Basic	$ 1.09	$ 1.47	$ 1.10	$ 0.58	$ 0.24	$ (0.52)
Diluted	$ 1.07	$ 1.43	$ 1.07	$ 0.57	$ 0.24	$ (0.52)
Basic shares	54,866	55,516	55,081	54,005	45,682	44,186
Diluted shares	55,803	57,076	56,432	55,264	46,198	44,186

(1) Reflects annual effective income tax rates, before discrete adjustments, of 34.2%, 34.7%, 38.0% and 40.0% for 2013, 2012, 2009 and 2008, respectively.

(2) In February 2012, we announced that William R. McLaughlin, then President and Chief Executive Officer, 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 incurred incremental non-cash compensation of $5.6 million ($3.7 million, net of income tax) in fiscal year 2012. The performance-based stock awards are subject to applicable performance adjustments (through 2014) based on free cash flow and actual market share growth versus performance targets. 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.

(3) In 2009, we expensed $3.3 million ($2.1 million, net of income tax) of direct, incremental costs incurred in connection with a terminated equity financing transaction.

(4) Fiscal 2008 includes impairment charges for the abandonment of our plan to implement SAP®-based applications and impairment charges in excess of $1.0 million for underperforming stores.

(5) In 2008, we established a $26.8 million valuation allowance against deferred taxes based on uncertainty regarding future taxable income. In 2009, we reversed the valuation allowance against deferred taxes based on all available positive and negative evidence.

Non-GAAP Data Reconciliations (continued)

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

We define earnings before interest, taxes, depreciation and amortization as net income plus: income tax expense, interest expense, depreciation and amortization, stock-based compensation and asset impairments ("Adjusted EBITDA"). 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					
	2013	2012	2011	2010	2009	2008
Net income (loss)	$ 60,081	$ 78,094	$ 60,478	$ 31,568	$ 35,552	$ (70,177)
Income tax expense (benefit)	30,930	41,911	29,942	18,922	(20,862)	(2,566)
Interest expense	51	91	187	1,951	5,996	3,375
Depreciation and amortization	29,599	19,735	13,493	13,012	17,681	21,635
Stock-based compensation	4,232	10,306	4,971	3,962	3,236	3,702
Asset impairments	127	148	109	260	686	34,594
Adjusted EBITDA	$ 125,020	$ 150,285	$ 109,180	$ 69,675	$ 42,289	$ (9,437)

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					
	2013	2012	2011	2010	2009	2008
Net cash provided by operating activities	$ 88,105	$ 100,626	$ 91,046	$ 71,407	$ 63,176	$ 5,821
Subtract: Purchases of property and equipment	76,811	51,593	23,527	7,349	2,459	32,202
Free cash flow	$ 11,294	$ 49,033	$ 67,519	$ 64,058	$ 60,717	$ (26,381)

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;*
- *Pending and unforeseen litigation and the potential for adverse publicity associated with litigation;*
- *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 manufacturing facilities;*
- *Increasing government regulation;*
- *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;*
- *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 the 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 believe that we are leading the industry in delivering an unparalleled sleep experience by offering consumers high-quality, innovative and individualized sleep solutions and services, which include a complete line of Sleep Number® beds and bedding. We are the exclusive manufacturer, marketer, retailer and servicer of the revolutionary Sleep Number bed, which allows individuals to adjust the firmness and support of each side at the touch of a button. We offer further individualization through our new sleep tracking technology, SleepIQ™, and a solutions-focused line of Sleep Number pillows, sheets, adjustable bases, and other bedding products, including the innovative DualTemp™ temperature-balancing layer.

As the only national specialty-mattress retailer, we generate revenue by selling products through two distribution channels. Our Company-Controlled channel, which includes Retail, Direct Marketing and E-Commerce, sells directly to consumers. Our Wholesale/ Other channel sells to and through selected retail and wholesale customers in the United States and Australia, and the QVC shopping channel.

Mission, Vision and Goals

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 executing our consumer brand strategy to advance our long-term goals and strengthen our competitive advantages.

Our long-term goals are:

- Everyone will know Sleep Number®;
- Innovative Sleep Number® products will deliver meaningful benefits;
- Customers will easily find and interact with Sleep Number;
- Customers will enthusiastically recommend Sleep Number; and
- We will leverage our unique business model to fund innovation and growth.

Results of Operations

Fiscal 2013 Summary

Financial highlights for fiscal 2013 were as follows:

- Net income decreased 23% to $60.1 million, or $1.08 per diluted share, compared with net income of $78.1 million, or $1.37 per diluted share in 2012.
- Financial results for 2012 and 2013 included a $5.6 million charge ($3.7 million, net of income tax) and a $0.5 million benefit ($0.4 million, net of income tax), respectively, associated with the June 1, 2012 chief executive officer transition. See *CEO Transition Costs* on page 27 for additional details.
- Net sales increased 3% to $960.2 million, compared with $935.0 million in 2012, primarily due to the addition of 30 net new stores partially offset by a 4% comparable sales decrease in our Company-Controlled channel.
- Operating income for 2013 declined to $90.7 million, or 9.4% of net sales, compared with $119.8 million, or 12.8% of net sales, for the same period one year ago. Adjusted operating income (operating income excluding CEO transition (benefit) costs) decreased to $90.2 million, or 9.4% of net sales, compared with $125.4 million, or 13.4% of net sales, for the same period one year ago. The decline in operating income was primarily driven by a 1.1 percentage point decrease in our gross profit rate and a 3.1 percentage point increase in our sales and marketing expense rate. Annual retail sales-per-store for 2013 decreased by 3% from one year ago to $2.1 million (for stores open at least one year).
- Cash provided by operating activities in 2013 totaled $88.1 million, compared with $100.6 million for the prior year.
- At December 28, 2013, cash, cash equivalents and marketable debt securities totaled $145.0 million compared with $177.8 million at December 29, 2012, and we had no borrowings under our revolving credit facility. In 2013, we repurchased 1,828,811 shares of our common stock under our Board-approved share repurchase program at a cost of $40.0 million ($21.89 per share). As of December 28, 2013, the remaining authorization under our Board-approved share repurchase program was $136.7 million.

- On January 17, 2013, we completed the purchase of the business and assets of Comfortaire Corporation, a manufacturer and marketer of adjustable air-supported sleep systems, for $15.5 million. Comfortaire Corporation was a privately held company with 2012 net sales of $10.5 million. We purchased Comfortaire to advance our innovation leadership in individualized sleep comfort.

The following table sets forth, for the periods indicated, 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.

	2013		2012		2011	
	$	**% of Net Sales**	**$**	**% of Net Sales**	**$**	**% of Net Sales**
Net sales	$ 960.2	100.0%	$ 935.0	100.0%	$ 743.2	100.0%
Cost of sales	358.4	37.3	338.4	36.2	272.9	36.7
Gross profit	601.8	62.7	596.5	63.8	470.3	63.3
Operating expenses:						
Sales and marketing	439.2	45.7	398.2	42.6	317.5	42.7
General and administrative	62.8	6.5	66.6	7.1	58.1	7.8
Research and development	9.5	1.0	6.2	0.7	4.2	0.6
CEO transition (benefit) costs	(0.5)	(0.1)	5.6	0.6	—	0.0
Asset impairment charges	0.1	0.0	0.1	0.0	0.1	0.0
Total operating expenses	511.1	53.2	476.8	51.0	379.9	51.1
Operating income	90.7	9.4	119.8	12.8	90.5	12.2
Operating income – as adjusted [(1)]	*90.2*	*9.4*	*125.4*	*13.4*	*90.5*	*12.2*
Other income, net	0.3	0.0	0.2	0.0	—	0.0
Income before income taxes	91.0	9.5	120.0	12.8	90.4	12.2
Income tax expense	30.9	3.2	41.9	4.5	29.9	4.0
Net income	$ 60.1	6.3%	$ 78.1	8.4%	$ 60.5	8.1%
Net income – as adjusted [(1)]	*$ 59.7*	*6.2%*	*$ 81.7*	*8.7%*	*$ 60.5*	*8.1%*
Net income per share:						
Basic	$ 1.10		$ 1.41		$ 1.10	
Diluted	$ 1.08		$ 1.37		$ 1.07	
Diluted – as adjusted [(1)]	*$ 1.07*		*$ 1.43*		*$ 1.07*	
Weighted-average number of common shares:						
Basic	54.9		55.5		55.1	
Diluted	55.8		57.1		56.4	

(1) This non-GAAP measure is not in accordance with, nor 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 page 21 for a reconciliation of this non-GAAP measure to the appropriate GAAP measure.

GAAP – generally accepted accounting principles

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

	2013	2012	2011
Company-Controlled channel	96.2%	96.7%	96.2%
Wholesale/Other channel	3.8%	3.3%	3.8%
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)		
	2013	2012	2011
Retail comparable-store sales[1]	(4%)	24%	29%
Direct and E-Commerce	(5%)	9%	(1%)
Company-Controlled comparable sales change	(4%)	23%	26%
Net store openings/closings	6%	3%	(1%)
Total Company-Controlled channel	2%	26%	25%
Wholesale/Other channel	18%	10%	(11%)
Total net sales change	3%	26%	23%

[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.

Other sales metrics were as follows:

	2013	2012	2011
Average sales per store[1] ($ in thousands)	$ 2,093	$ 2,164	$ 1,721
Average sales per square foot[1]	$ 1,077	$ 1,324	$ 1,135
Stores > $1 million in net sales[1]	96%	98%	93%
Stores > $2 million in net sales[1]	46%	49%	24%
Average net sales per mattress unit – Company-Controlled channel[2]	$ 3,245	$ 3,050	$ 2,694

[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.

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

	2013	2012	2011
Beginning of period	410	381	386
Opened	71	57	19
Closed	(41)	(28)	(24)
End of period	440	410	381

Comparison of 2013 and 2012

Net sales

Net sales in 2013 increased 3% to $960.2 million, compared with $935.0 million for the same period one year ago. The sales increase was primarily driven by sales from 30 net new retail stores opened in the past 12 months, partially offset by a 4% comparable sales decline in our Company-Controlled channel. Company-Controlled mattress units decreased 4% compared to the prior-year period. Average net sales per mattress unit in our Company-Controlled channel increased by 6%.

The $25.2 million net sales increase compared with the same period one year ago was comprised of the following: (i) a $53.1 million sales increase resulting from net new retail store openings and (ii) a $5.4 million increase in Wholesale/Other channel sales; partially offset by (iii) $30.0 million decrease in sales from our Company-Controlled comparable retail stores; and (iv) a $3.3 million decrease in Direct and E-Commerce sales.

Gross profit

The gross profit rate decreased to 62.7% of net sales in 2013, compared with 63.8% for the prior-year period. The 2013 sales mix shift to lower-margin products, including Memorial Day and Labor Day limited-edition mattresses and the introduction of the DualTemp layer, reduced the gross profit rate by 0.8 percentage points (“ppt.”) compared to the same period one year ago. In addition, higher sales return and exchange costs, including the second quarter 2013 move to more generous return and exchange policies, reduced the gross profit rate by 0.8 ppt. The gross profit rate was favorably impacted by 0.6 ppt. related to supply chain and manufacturing efficiencies. The rate was also impacted by a variety of factors that can fluctuate from year-to-year, including performance-based incentive compensation and warranty expenses.

Sales and marketing expenses

Sales and marketing expenses in 2013 increased 10% to $439.2 million, or 45.7% of net sales, compared with $398.2 million, or 42.6% of net sales, for the same period one year ago. The $41.0 million increase resulted from (i) a $24.6 million increase in fixed selling expenses primarily due to new, repositioned and remodeled stores; (ii) a $17.9 million, or 14%, increase in media spending; and (iii) a $5.4 million increase in customer financing expenses, as a larger percentage of our customers took advantage of promotional financing offers. These increases were partially offset by lower percentage rent of $4.0 million and a net decrease in miscellaneous other expenses. The sales and marketing expense rate increased 3.1 ppt. compared with the same period one year ago due to the increase in expenses noted above and the deleveraging impact of the 4% comparable sales decrease in our Company-Controlled channel.

General and administrative expenses

General and administrative (“G&A”) expenses decreased $3.8 million to $62.8 million in 2013, compared with $66.6 million in the prior year and decreased to 6.5% of net sales, compared with 7.1% of net sales one year ago. The $3.8 million decrease in G&A expenses was primarily due to (i) a $7.7 million decrease in performance-based incentive compensation; (ii) a $2.8 million reduction in outside professional fees, partially offset by (iii) a $4.6 million increase in employee compensation resulting from headcount increases to support business growth initiatives, and salary and wage rate increases that were in line with inflation; (iv) $1.9 million of additional depreciation expense resulting from the increase in capital expenditures; and (v) a $0.2 million net increase in miscellaneous other expenses. The G&A expense rate decreased by 0.6 ppt. in the current period compared with the same period one year ago due to the net reduction in expenses and the leveraging impact of the 3% net sales increase.

Research and development expenses

Research and development (R&D) expenses increased to $9.5 million, or 1.0% of net sales in 2013, compared with $6.2 million, or 0.7% of net sales, for the same period one year ago. The $3.3 million increase in R&D expenses was due to increased investments to support product innovations during 2013 and the Company's long-term product innovation roadmap.

CEO transition costs

In February 2012, we announced that William R. McLaughlin, then President and Chief Executive Officer would retire from the Company effective June 1, 2012. In recognition of Mr. McLaughlin’s contributions to the Company, 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) in 2012. The performance-based stock awards are subject to applicable performance adjustments through 2014 based on free cash flow and actual market share growth versus performance targets. 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.

Asset impairment charges

During 2013 and 2012, we recognized asset impairment charges of $0.1 million related to computer software and certain retail store assets.

Other income, net

Other income, net was $0.3 million for 2013, compared with $0.2 million for the comparable period one year ago. The current-year improvement in other income, net was primarily due to a higher average yield on our portfolio in the current-year period, and a reduction of fees associated with our line of credit.

Income tax expense

Income tax expense was $30.9 million in 2013 compared with $41.9 million for the same period one year ago. The effective tax rate for 2013 decreased to 34.0% compared with the prior-year period rate of 34.9%. The decrease in the effective tax rate primarily resulted from the retroactive reinstatement of the 2012 research and development tax credit in the first quarter of 2013. Income tax expense for 2013 includes research and development tax credits for both 2012 and 2013.

Comparison of 2012 and 2011

Net sales

Net sales in 2012 increased 26% to $935.0 million, compared with $743.2 million for the same period one year ago. The sales increase was primarily driven by a 23% comparable sales increase in our Company-Controlled channel and the sales from 29 net new retail stores opened in the past 12 months. Company-Controlled mattress units increased 12% compared to the prior-year period. Average net sales per mattress unit in our Company-Controlled channel increased by 13%.

The $191.8 million net sales increase compared with the same period one year ago was comprised of the following: (i) a $147.5 million increase in sales from our Company-Controlled comparable retail stores and a $35.7 million sales increase resulting from net new retail store openings; (ii) a $5.8 million increase in Direct and E-Commerce sales; and (iii) a $2.8 million increase in Wholesale/Other channel sales.

Gross profit

The gross profit rate increased to 63.8% of net sales in 2012, compared with 63.3% for the prior-year period. Approximately 0.9 percentage points ("ppt.") of the gross profit rate increase was due to price increases and product mix changes resulting from product innovations over the last 12 months. In addition, the prior-year period included a $1.6 million (0.2 ppt.) warranty charge related to customer-service reserves. These gross profit rate increases in 2012 were partially offset by a variety of factors that can fluctuate from year-to-year, including sales return and exchange costs and logistics expenses.

Sales and marketing expenses

Sales and marketing expenses in 2012 increased 25% to $398.2 million, or 42.6% of net sales, compared with $317.5 million, or 42.7% of net sales, for the same period one year ago. The $80.7 million increase was primarily due to a $35.3 million, or 39%, increase in media spending, an increase in variable selling expenses due to the higher sales volume and the additional costs associated with operating 29 net new retail stores. The sales and marketing expense rate declined 0.1 ppt. compared with the same period one year ago due to the leveraging impact of the 26% net sales increase.

General and administrative expenses

General and administrative ("G&A") expenses increased $8.5 million to $66.6 million in 2012, compared with $58.1 million in the prior year, but decreased to 7.1% of net sales, compared with 7.8% of net sales one year ago. The $8.5 million increase in G&A expenses was primarily due to (i) a $4.2 million increase in outside consulting and legal expenses; (ii) $2.1 million of additional depreciation expense resulting from the increase in capital expenditures to support the growth of the business; (iii) a $0.6 million increase in employee compensation expenses resulting from an increase in employee headcount to support the growth of the business, and salary and wage rate increases that were in line with inflation; and (iv) a $1.6 million net increase in miscellaneous other expenses, partially offset by lower performance-based incentive compensation and stock-based compensation. The G&A expense rate decreased by 0.7 ppt. in the current period compared with the same period one year ago due to the leveraging impact of the 26% net sales increase.

Research and development expenses

Research and development expenses increased to $6.2 million, or 0.7% of net sales in 2012, compared with $4.2 million, or 0.6% of net sales, for the same period one year ago. The $2.0 million increase in R&D expenses was due to increased investments in product innovation during 2012.

CEO transition costs

In February 2012, we announced that William R. McLaughlin, then President and Chief Executive Officer would retire from the Company effective June 1, 2012. In recognition of Mr. McLaughlin's contributions to the Company, the Compensation Committee approved the modification of Mr. McLaughlin's unvested stock awards, including performance stock awards. The performance stock awards are subject to applicable performance adjustments (through 2014) based on free cash flow and actual market share growth versus performance targets. During 2012, we incurred $5.6 million ($3.7 million, net of income tax) of non-recurring, non-cash expenses associated with these stock award modifications.

Asset impairment charges

During 2012, we recognized asset impairment charges of $0.1 million related to computer software and certain retail store assets. During 2011, we recognized asset impairment charges of $0.1 million related to production machinery, computer equipment and certain retail store assets.

Other income (expense), net

Other income, net was $0.2 million for 2012, compared with other expense, net of $33 thousand for the comparable period one year ago. The current-year improvement in other income (expense), net was primarily due to a reduction in fees associated with our line of credit, a higher average yield on our investment portfolio in the current-year period, and an increase in our average cash, cash equivalents and marketable debt securities balance in 2012 compared with the prior year.

Income tax expense

Income tax expense was $41.9 million in 2012 compared with $29.9 million for the same period one year ago. The effective tax rate for 2012 increased to 34.9% compared with the prior-year period rate of 33.1%. The 2011 effective tax rate benefited from the favorable resolution of certain prior years' income tax matters.

Liquidity and Capital Resources

As of December 28, 2013, cash, cash equivalents and marketable debt securities totaled $145.0 million compared with $177.8 million as of December 29, 2012. The $32.8 million decrease was primarily due to $88.1 million of cash provided by operating activities offset by $76.8 million of cash used to purchase property and equipment, $20.0 million of strategic investments, including the purchase of Comfortaire (see discussion below), and $42.1 million of cash used to repurchase our common stock ($40.0 million under our Board-approved share repurchase program and $2.0 million in connection with the vesting of employee restricted stock grants). Our $86.8 million of marketable debt securities held as of December 28, 2013 are all highly liquid and include U.S. government and agency securities, corporate debt securities and municipal bonds.

The following table summarizes our cash flows for the fiscal years ended December 28, 2013, and December 29, 2012 (dollars in millions). Amounts may not add due to rounding differences:

	2013	2012
Total cash provided by (used in):		
Operating activities	$ 88.1	$ 100.6
Investing activities	(87.3)	(112.1)
Financing activities	(30.5)	(16.9)
Net decrease in cash and cash equivalents	$ (29.7)	$ (28.3)

Cash provided by operating activities for the fiscal year ended December 28, 2013 was $88.1 million compared with $100.6 million for the fiscal year ended December 29, 2012. The $12.5 million year-over-year decrease in cash from operating activities was comprised of an $18.0 million decrease in our 2013 net income compared with the same period one year ago, and an $5.4 million increase in adjustments to reconcile net income to net cash provided by operating activities, partially offset by a $0.1 million increase in cash from changes in operating assets and liabilities.

Investing activities for the fiscal year ended December 28, 2013 consisted of $76.8 million of property and equipment purchases, compared with $51.6 million for the same period one year ago. During 2013, we opened 71 retail stores and repositioned or remodeled 42 retail stores, while in 2012 we opened 57 retail stores and repositioned or remodeled 38 retail stores. Capital expenditures for 2014 are projected to be $70 - $80 million compared with $76.8 million in 2013. The capital expenditures for 2014 are primarily for continued investment in customer-management systems and other information technology, new retail stores, repositioned and remodeled retail stores, and investments to support product innovation initiatives. We received net proceeds of $9.4 million in marketable debt securities during the fiscal year ended December 28, 2013 compared with a net investment of $60.6 million during the comparable period one year ago. On January 17, 2013, we completed the purchase of the business and assets of Comfortaire Corporation, a manufacturer and marketer of adjustable air-supported sleep systems, for $15.5 million. Comfortaire Corporation was a privately held company with 2012 net sales of $10.5 million. We purchased Comfortaire to advance our innovation leadership in individualized comfort. See Note 3, *Purchase of Comfortaire*, of the Notes to Condensed Consolidated Financial Statements for further details. Finally, we made a $4.5 million minority equity investment in one of our strategic product-development partners.

Net cash used in financing activities was $30.5 million for the fiscal year ended December 28, 2013, compared with net cash used in financing activities of $16.9 million for the same period one year ago. During the fiscal year ended December 28, 2013, we repurchased $42.1 million of our stock ($40.0 million under our Board-approved share repurchase program and $2.0 million in connection with the vesting of employee restricted stock grants) compared with $34.9 million during the same period one year ago. Changes in book overdrafts and payments on capital lease obligations 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.

During the second quarter of 2012, we reinitiated repurchasing our common stock. Under the Board-approved $290 million share repurchase program, we repurchased 1,828,811 shares at a cost of $40.0 million ($21.89 per share) during the fiscal year ended December 28, 2013. During 2012, we repurchased 1,140,861 shares at a cost of $30.0 million ($26.32 per share) under our Board-approved share repurchase program during the fiscal year ended December 29, 2012. As of December 28, 2013, the remaining authorization under our Board-approved share repurchase program was $136.7 million. There is no expiration date governing the period over which we can repurchase shares.

Our $20.0 million Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as amended, is an unsecured revolving credit facility that matures August 31, 2016. The Credit Agreement contains an accordion feature that allows us to increase the amount of the line from $20.0 million to up to $50.0 million in total availability, subject to lender approval. As of December 28, 2013 we were in compliance with all financial covenants.

Our business model, which can operate with minimal working capital, does not require significant additional capital to fund operations or organic growth. The $145.0 million of cash, cash equivalents and marketable debt securities, cash generated from ongoing operations, and cash available under our revolving credit facility are expected to be adequate to maintain operations, and fund anticipated capital expenditures and strategic initiatives for the foreseeable future.

We have an agreement with GE Capital Retail Bank to offer qualified customers revolving credit arrangements to finance purchases from us ("GE Agreement"). The GE Agreement contains certain financial covenants, including a minimum tangible net worth requirement and a minimum cash requirement. As of December 28, 2013 we were in compliance with all financial covenants.

Under the terms of the GE Agreement, GE Capital Retail 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 28, 2013, 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 28, 2013. A summary of our operating lease obligations by fiscal year is included in the "Contractual Obligations" section below. 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 by fiscal year (in thousands):

	Payments Due by Period[1]				
	Total	< 1 Year	1 - 3 Years	3 - 5 Years	> 5 Years
Operating leases[2]	$ 216,995	$ 44,549	$ 75,816	$ 51,526	$ 45,104
Purchase commitments	4,784	4,784	—	—	—
Total	$ 221,779	$ 49,333	$ 75,816	$ 51,526	$ 45,104

[1] Our unrecognized tax benefits, including interest and penalties, of $0.5 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] At December 28, 2013, we had entered into 32 lease commitments for future retail store locations. These lease commitments provide for minimum rentals over the next five to 10 years, which if consummated based on current cost estimates, would approximate $30.9 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, asset impairment charges, 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. We determine the fair value of our nonqualified stock option awards and the resulting compensation expense at the date of grant using the Black-Scholes-Merton option-pricing model. The most significant inputs into the Black-Scholes-Merton model are exercise price, our estimate of expected stock price volatility and the expected term of the options. We determine the fair value of our performance-based stock awards at the date of grant based on the closing market price of our stock. However, 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 vest ranges from 0% to 150% of the targeted amount. 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 stock awards granted in 2013, the performance targets are net sales and operating margin and the performance period is fiscal 2015. For performance stock awards granted in 2012, the performance target is actual market share growth and the performance period is from January 2012 through December 2014. For performance stock awards granted in 2011, the performance targets were actual market share growth and free cash flow and the performance period was from January 2011 through December 2013. The actual number of shares that will ultimately vest upon completion of the service period for the 2011 performance stock awards will be 93% of the targeted amount.	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 estimate 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 28, 2013, would have affected net income by approximately $278,000 in 2013.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Asset Impairment Charges		
Long-lived assets (other than goodwill and indefinite-lived intangible assets, which are separately tested for impairment) are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). 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. We generally estimate fair value of long-lived assets, including our retail stores and definite-lived intangible assets, 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. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated fair value plus net proceeds expected from disposition of the asset (if any). When we recognize an impairment loss, the carrying amount of the asset is permanently 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, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.	Our impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to identify events or changes in circumstances indicating the carrying value of assets may not be recoverable, estimate future cash flows, estimate asset fair values, and select a discount rate that reflects the risk inherent in future cash flows. Expected cash flows may not be realized, which could cause long-lived assets to become impaired in future periods and could have a material adverse effect on future results of operations.	We have not made any material changes in our impairment loss assessment methodology during the past three fiscal years. As of December 28, 2013, all retail stores had sufficient projected future cash flows to support the carrying value of their long-lived assets. We believe that our estimates and assumptions used to determine long-lived asset impairment charges were reasonable and reflect the current economic environment. Our fair value calculations reflect current consumer spending trends. Our fair value calculations assume the ongoing availability of consumer credit and our ability to provide cost-effective consumer credit options. However, it is reasonably possible that an unexpected decline in consumer spending may expose us to future impairment charges that could be material. Asset impairment charges totaled $127,000, $148,000 and $109,000 for 2013, 2012 and 2011, respectively.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Goodwill and Indefinite-Lived Intangible Assets		
Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. Our other indefinite-lived intangible assets include trade names/ trademarks. See Note 7, *Goodwill and Intangible Assets, Net,* for a complete discussion of our goodwill and indefinite-lived intangible assets. Our test for goodwill impairment is performed at least annually or when there are any indicators of impairment. The FASB's 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. Other 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.	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 and operating profit levels, as well as consideration of any other factors that may indicate potential impairment.	In the fourth quarter of fiscal 2013, 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, making changes to such assumptions and judgments could materially affect our impairment analyses and future results of operations, including an impairment charge that could be material.
Warranty Liabilities		
The estimated cost to service warranty and customer service claims is included in cost of sales. This estimate is based on historical trends and warranty claim rates. We regularly assess and adjust the estimate of accrued warranty claims by updating claims rates for actual trends and projected claim costs.	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 28, 2013, would have affected net income by approximately $273,000 in 2013.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
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 set up are included in net sales. Revenue is reported net of estimated sales returns and excludes sales taxes. We accrue for sales returns at the time revenue is recognized and charge actual returns against the liability when they are received. Our general return policy is to accept returns during a 100-night trial period. We estimate future projected returns based on historical return rates.	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 28, 2013 would have affected net income by approximately \$621,000 in 2013.

Recent Accounting Pronouncements

None currently applicable.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Changes in the overall level of interest rates affect interest income generated from our short-term and long-term investments in marketable debt securities. 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 investments in marketable debt securities as of December 28, 2013 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 28, 2013, 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 Stockholders 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 28, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* 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 28, 2013, based on the criteria established in *Internal Control - Integrated Framework (1992)* 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 28, 2013, of the Company and our report dated February 21, 2014 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
February 21, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders 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 28, 2013, and December 29, 2012, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 28, 2013, and December 29, 2012, and the results of their operations and their cash flows for the three years in the period ended December 28, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as 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 28, 2013, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
February 21, 2014

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets
December 28, 2013 and December 29, 2012
(in thousands, except per share amounts)

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 58,223	$ 87,915
Marketable debt securities – current	52,159	51,264
Accounts receivable, net of allowance for doubtful accounts of $425 and $348, respectively	14,979	16,613
Inventories	40,152	35,564
Prepaid expenses	9,216	4,299
Deferred income taxes	6,936	5,401
Other current assets	7,874	9,522
Total current assets	189,539	210,578
Non-current assets:		
Marketable debt securities – non-current	34,632	38,642
Property and equipment, net	129,542	79,356
Goodwill and intangible assets, net	16,823	2,881
Deferred income taxes	4,943	8,511
Other assets	6,286	2,053
Total assets	$ 381,765	$ 342,021
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 73,391	$ 67,703
Customer prepayments	15,392	15,194
Accrued sales returns	9,433	5,330
Compensation and benefits	15,242	21,597
Taxes and withholding	12,517	9,282
Other current liabilities	11,207	13,955
Total current liabilities	137,182	133,061
Non-current liabilities:		
Warranty liabilities	1,567	1,457
Other long-term liabilities	17,796	13,806
Total liabilities	156,545	148,324
Shareholders' equity:		
Undesignated preferred stock; 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value; 142,500 shares authorized, 54,901 and 55,903 shares issued and outstanding, respectively	549	559
Additional paid-in capital	5,382	33,923
Retained earnings	219,276	159,195
Accumulated other comprehensive income	13	20
Total shareholders' equity	225,220	193,697
Total liabilities and shareholders' equity	$ 381,765	$ 342,021

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Operations
Years ended December 28, 2013, December 29, 2012 and December 31, 2011
(in thousands, except per share amounts)

	2013	2012	2011
Net sales	$ 960,171	$ 934,978	$ 743,203
Cost of sales	358,416	338,432	272,858
Gross profit	601,755	596,546	470,345
Operating expenses:			
Sales and marketing	439,156	398,205	317,502
General and administrative	62,840	66,617	58,106
Research and development	9,478	6,194	4,175
CEO transition (benefit) costs	(534)	5,595	—
Asset impairment charges	127	148	109
Total operating expenses	511,067	476,759	379,892
Operating income	90,688	119,787	90,453
Other income (expense), net	323	218	(33)
Income before income taxes	91,011	120,005	90,420
Income tax expense	30,930	41,911	29,942
Net income	$ 60,081	$ 78,094	$ 60,478
Basic net income per share:			
Net income per share – basic	$ 1.10	$ 1.41	$ 1.10
Weighted-average shares – basic	54,866	55,516	55,081
Diluted net income per share:			
Net income per share – diluted	$ 1.08	$ 1.37	$ 1.07
Weighted-average shares – diluted	55,803	57,076	56,432

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
Years ended December 28, 2013, December 29, 2012 and December 31, 2011
(in thousands)

	2013	2012	2011
Net income	$ 60,081	$ 78,094	60,478
Other comprehensive (loss) income – unrealized (loss) gain on available-for-sale marketable debt securities, net of income tax	(7)	(5)	25
Comprehensive income	$ 60,074	$ 78,089	60,503

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity
Years ended December 28, 2013, December 29, 2012 and December 31, 2011
(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance at January 1, 2011	55,455	$ 555	$ 36,799	$ 20,623	$ —	$ 57,977
Net income	—	—	—	60,478	—	60,478
Other comprehensive income:						
Unrealized gain on available-for-sale marketable debt securities, net of tax	—	—	—	—	25	25
Exercise of common stock options	725	7	4,349	—	—	4,356
Tax effect from stock-based compensation	—	—	1,865	—	—	1,865
Stock-based compensation	204	2	4,969	—	—	4,971
Repurchases of common stock	(30)	—	(371)	—	—	(371)
Other	43	—	90	—	—	90
Balance at December 31, 2011	56,397	$ 564	$ 47,701	$ 81,101	$ 25	$ 129,391
Net income	—	—	—	78,094	—	78,094
Other comprehensive income:						
Unrealized loss on available-for-sale marketable debt securities, net of tax	—	—	—	—	(5)	(5)
Exercise of common stock options	659	7	5,131	—	—	5,138
Tax effect from stock-based compensation	—	—	5,665	—	—	5,665
Stock-based compensation	170	1	10,305	—	—	10,306
Repurchases of common stock	(1,323)	(13)	(34,879)	—	—	(34,892)
Balance at December 29, 2012	55,903	$ 559	$ 33,923	$ 159,195	$ 20	$ 193,697
Net income	—	—	—	60,081	—	60,081
Other comprehensive income:						
Unrealized loss on available-for-sale marketable debt securities, net of tax	—	—	—	—	(7)	(7)
Exercise of common stock options	757	7	7,959	—	—	7,966
Tax effect from stock-based compensation	—	—	1,007	—	—	1,007
Stock-based compensation	160	2	4,230	—	—	4,232
Repurchases of common stock	(1,919)	(19)	(42,053)	—	—	(42,072)
Other	—	—	316	—	$ —	316
Balance at December 28, 2013	54,901	$ 549	$ 5,382	$ 219,276	$ 13	$ 225,220

See accompanying notes to consolidated financial statements.

SELECT COMFORT CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 28, 2013, December 29, 2012 and December 31, 2011
(in thousands)

	2013	2012	2011
Cash flows from operating activities:			
Net income	$ 60,081	$ 78,094	$ 60,478
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	30,811	20,401	13,543
Stock-based compensation	4,232	10,306	4,971
Net loss on disposals and impairments of assets	24	115	98
Excess tax benefits from stock-based compensation	(3,831)	(6,446)	(2,190)
Deferred income taxes	2,037	3,499	2,839
Changes in operating assets and liabilities, net of effect of acquisition:			
Accounts receivable	1,993	(2,705)	(3,935)
Inventories	(3,910)	(10,713)	(5,204)
Income taxes	4,395	4,299	4,445
Prepaid expenses and other assets	(3,169)	(2,382)	(1,976)
Accounts payable	(3,477)	7,114	6,913
Customer prepayments	198	1,665	585
Accrued compensation and benefits	(5,202)	(8,108)	5,167
Other taxes and withholding	(153)	765	1,944
Warranty liabilities	(1,236)	(1,454)	566
Other accruals and liabilities	5,312	6,176	2,802
Net cash provided by operating activities	88,105	100,626	91,046
Cash flows from investing activities:			
Purchases of property and equipment	(76,811)	(51,593)	(23,527)
Proceeds from maturities of marketable debt securities	53,565	26,249	10,000
Investments in marketable debt securities	(44,170)	(86,803)	(40,021)
Acquisition of business	(15,500)	—	—
Investment in non-marketable equity securities	(4,500)	—	—
Proceeds from sales of property and equipment	117	45	11
Increase in restricted cash	—	—	(2,650)
Net cash used in investing activities	(87,299)	(112,102)	(56,187)
Cash flows from financing activities:			
Repurchases of common stock	(42,072)	(34,892)	(371)
Proceeds from issuance of common stock	7,966	5,138	4,356
Net (decrease) increase in short-term borrowings	(223)	6,494	(795)
Excess tax benefits from stock-based compensation	3,831	6,446	2,190
Debt issuance costs	—	(50)	—
Net cash (used in) provided by financing activities	(30,498)	(16,864)	5,380
Net (decrease) increase in cash and cash equivalents	(29,692)	(28,340)	40,239
Cash and cash equivalents, at beginning of period	87,915	116,255	76,016
Cash and cash equivalents, at end of period	$ 58,223	$ 87,915	$ 116,255

Supplemental Disclosure of Cash Flow Information

	2013	2012	2011
Income taxes paid	$ 24,253	$ 34,181	$ 23,778
Interest paid	$ 34	$ 81	$ 113
Capital lease obligations incurred	$ —	$ —	$ 83
Purchases of property and equipment included in accounts payable	$ 3,465	$ 3,817	$ 1,486

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") are the exclusive manufacturer, marketer, retailer and servicer of the revolutionary Sleep Number bed, which allows individuals to adjust the firmness and support on each side at the touch of a button. We offer further individualization through our new sleep tracking technology, SleepIQ™, and a solutions-focused line of Sleep Number pillows, sheets, adjustable bases, and other bedding products, including the innovative DualTemp™ temperature-balancing layer.

As the only national specialty-mattress retailer, we generate revenue by selling products through two distribution channels. Our Company-Controlled channel, which includes Retail, Direct Marketing and E-Commerce, sells directly to consumers. Our Wholesale/ Other channel sells to and through selected retail and wholesale customers in the United States and Australia, 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 are as follows: fiscal 2013 ended December 28, 2013; fiscal 2012 ended December 29, 2012; and fiscal 2011 ended December 31, 2011. Fiscal years 2013, 2012 and 2011 each had 52 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, asset impairment charges, 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 (decrease) increase in short-term borrowings in the financing activities section of our consolidated statements of cash flows. Book overdrafts totaled \$13.4 million and \$13.5 million at December 28, 2013, and December 29, 2012, respectively.

Marketable Debt Securities

Our investment portfolio is currently comprised of U.S. government and agency securities, corporate debt securities and municipal bonds. The value of these securities is subject to market and credit volatility during the period these investments are held. We classify marketable debt securities as available-for-sale investments and these securities are 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 in our consolidated balance sheets. Other-than-temporary declines in market value, if any, from original cost are charged to other income (expense), 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 in our consolidated balance sheets to other income (expense), net in our consolidated statements of operations.

See Note 2, *Fair Value Measurements*, for more information on our fair value measurements.

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, cash equivalents and investments. We place our cash with high-credit quality financial institutions. We currently hold investments in U.S. government and agency securities, corporate debt securities and municipal bonds. We believe no significant concentration of credit risk exists with respect to our cash, cash equivalents and investments.

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 and our historical experience. 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.

Property under capital lease is comprised of computer equipment and computer software used in our retail operations and corporate support areas.

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

Leasehold improvements	5 to 10 years
Furniture and equipment	5 to 7 years
Production machinery, computer equipment and software	3 to 7 years
Property under capital lease	3 to 4 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 7-17 years.

Asset Impairment Charges

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. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated fair value plus net proceeds expected from disposition of the asset (if any). 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.

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. Our test for goodwill impairment is performed at least annually or when there are any indicators of impairment. The FASB's 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. Based on our 2013 quantitative assessment, we determined there was no impairment. Other indefinite-lived intangible assets are assessed for impairment at least annually, or when there are any indicators of 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.

Asset impairment charges is one of our critical accounting estimates and requires management to make estimates about future events including sales growth rates, cash flows and asset fair values. Predicting future events is inherently an imprecise activity. If actual results are not consistent with the estimates and assumptions used in our asset impairment calculations, we may incur additional impairment charges. See Note 1, *Business and Summary of Significant Accounting Policies – Fair Value Measurements*, for a discussion of how we determine fair values.

Warranty Liabilities

We provide a 25-year limited warranty on our beds. The customer participates over the last 23 years of the warranty period by paying a portion of the retail value of replacement parts. 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):

	2013	2012	2011
Balance at beginning of period	$ 4,858	$ 6,310	$ 5,744
Additions charged to costs and expenses for current-year sales	4,603	4,114	4,232
Deductions from reserves	(6,070)	(5,094)	(4,750)
Changes in liability for pre-existing warranties during the current year, including expirations[(1)]	230	(472)	1,084
Acquired warranty reserve	532	—	—
Balance at end of period	$ 4,153	$ 4,858	$ 6,310

[(1)] Includes $1.6 million increase for customer-service reserves established during 2011.

Fair Value Measurements

The guidance for fair value measurements establishes the authoritative definition of fair value, sets out a framework for measuring fair value and outlines the required disclosures regarding fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. We use a three-tier fair value hierarchy based upon observable and unobservable inputs as follows:

- 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 including:
    - Quoted prices for similar assets or liabilities in active markets;
    - Quoted prices for identical or similar assets in nonactive markets;
    - Inputs other than quoted prices that are observable for the asset or liability;
    - Inputs that are derived principally from or corroborated by other observable market data; and
- Level 3 – unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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.

Our projected fair value calculations reflect recent consumer spending trends and assume no significant change in the macroeconomic environment for the foreseeable future. Our fair value calculations reflect the ongoing availability of consumer credit and our ability to provide cost-effective consumer credit options.

Dividends

We are not restricted from paying cash dividends under our credit agreement other than customary legal and contractual restrictions. 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.

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

- 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 warranty claims of customers.

Sales & Marketing

- Advertising and media production;
- Marketing and selling materials such as brochures, videos, 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

- 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.

R&D(1)

- 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 rent our retail, office and manufacturing space 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. In addition, our mall-based retail store leases may require payment of contingent rents based upon sales levels.

Rent expense 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 long-term 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 28, 2013, and December 29, 2012, deferred rent included in other current liabilities in our consolidated balance sheets was $0.5 million and $1.1 million, respectively, and deferred rent included in other long-term liabilities in our consolidated balance sheets was $5.5 million and $4.6 million, respectively.

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 long-term liabilities, as appropriate and amortized as reductions to rent expense over the lease term. At December 28, 2013, and December 29, 2012, deferred lease incentives included in other current liabilities in our consolidated balance sheets were $2.0 million and $1.5 million, respectively, and deferred lease incentives included in other long-term liabilities in our consolidated balance sheets were $7.2 million and $5.0 million, respectively.

Lease payments that depend on factors that are not measurable at the inception of the lease, such as future sales levels, are contingent rents and are excluded from minimum lease payments and included in the determination of total rent expense 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.

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 $144.8 million, $126.9 million and $91.6 million in 2013, 2012 and 2011, respectively. Advertising costs deferred and included in prepaid expenses in our consolidated balance sheets were $6.2 million and $0.3 million as of December 28, 2013, and December 29, 2012, 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 $6.8 million and $4.6 million at December 28, 2013, and December 29, 2012, respectively. At December 28, 2013, and December 29, 2012, $3.3 million and $2.3 million, respectively, were included in compensation and benefits and $3.5 million and $2.3 million, respectively, were included in other long-term liabilities in our consolidated balance sheets. At December 28, 2013 and December 29, 2012, we had a restricted deposit of $2.7 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 also capitalize certain payroll and payroll-related costs for employees who are directly associated 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 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 use the Black-Scholes-Merton option-pricing model to estimate the fair value of stock options and resulting compensation expense. The most significant inputs into the Black-Scholes-Merton option-pricing model are exercise price, our estimate of expected stock price volatility and the weighted-average expected life of the options. 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 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 which 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 attributable to common shareholders 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 restricted stock.

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.

(2) Fair Value Measurements

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. Our financial assets are valued using market prices based on either active markets (Level 1 measurements) or less active markets (Level 2 measurements).

Our Level 1 securities include U.S. Treasury securities as they trade with sufficient frequency and volume to enable us to obtain pricing information on a consistent basis. Our Level 2 securities include 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 have any transfers between Level 1 and Level 2 fair value measurements during the periods presented.

The following tables set forth by level within the fair value hierarchy, our financial assets that were accounted for at fair value on a recurring basis at December 28, 2013, and December 29, 2012, according to the valuation techniques we used to determine their fair value (in thousands):

	December 28, 2013			
	Level 1	Level 2	Level 3	Total
Marketable debt securities – current				
U.S. Treasury securities	$ 15,011	$ —	$ —	$ 15,011
Corporate bonds	—	20,300	—	20,300
U.S. Agency bonds	—	12,025	—	12,025
Municipal bonds	—	4,823	—	4,823
	15,011	37,148	—	52,159
Marketable debt securities – non-current				
U.S. Treasury securities	8,978	—	—	8,978
Corporate bonds	—	15,484	—	15,484
U.S. Agency bonds	—	7,498	—	7,498
Municipal bonds	—	2,672	—	2,672
	8,978	25,654	—	34,632
	$ 23,989	$ 62,802	$ —	$ 86,791

	December 29, 2012			
	Level 1	Level 2	Level 3	Total
Marketable debt securities – current				
U.S. Treasury securities	$ 17,538	$ —	$ —	$ 17,538
Corporate bonds	—	21,549	—	21,549
U.S. Agency bonds	—	7,586	—	7,586
Municipal bonds	—	4,591	—	4,591
	17,538	33,726	—	51,264
Marketable debt securities – non-current				
U.S. Treasury securities	15,004	—	—	15,004
Corporate bonds	—	10,359	—	10,359
U.S. Agency bonds	—	10,056	—	10,056
Municipal bonds	—	3,223	—	3,223
	15,004	23,638	—	38,642
	$ 32,542	$ 57,364	$ —	$ 89,906

At December 28, 2013, and December 29, 2012, we had $1.1 million and $1.6 million, respectively, of debt and equity securities that fund our deferred compensation plan and are classified in other assets. We also had corresponding deferred compensation plan liabilities of $1.1 million and $1.6 million at December 28, 2013, and December 29, 2012, respectively, which are included in other long-term 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.

(3) Purchase of Comfortaire

On January 17, 2013, we completed the purchase of the business and assets of Comfortaire Corporation, a manufacturer and marketer of adjustable air-supported sleep systems. We purchased Comfortaire to advance our innovation leadership in individualized comfort. The acquisition price was $15.5 million. Comfortaire Corporation was a privately held company with 2012 net sales of $10.5 million. The purchase of Comfortaire's business and assets did not have a significant impact on our consolidated results of operations, cash flows or financial position.

The following table summarizes the final fair value of the net assets acquired (in thousands):

Accounts receivable	$	365
Inventories		678
Other assets		248
Property and equipment		513
Goodwill		6,113
Intangible assets		8,638
Total assets acquired		16,555
Accounts payable		404
Warranty liabilities		532
Other liabilities		119
Total liabilities acquired		1,055
Net assets acquired	$	15,500

The goodwill and identifiable intangible assets will be deductible for income tax purposes over a 15-year period on a straight-line basis.

Identifiable intangible assets and the associated estimated useful lives are as follows (in thousands):

	Estimated Useful Life		
Developed technologies	10 years	$	4,829
Customer relationships	7 years		2,413
Trade name/trademarks	Indefinite-Lived		1,396
		$	8,638

(4) Investments

Marketable Debt Securities

Investments in marketable debt securities were comprised of the following (in thousands):

	December 28, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value[1]
U.S. Treasury securities	$ 23,975	$ 15	$ (1)	$ 23,989
Corporate bonds	35,804	3	(23)	35,784
U.S. Agency bonds	19,517	10	(4)	19,523
Municipal bonds	7,474	23	(2)	7,495
	$ 86,770	$ 51	$ (30)	$ 86,791

	December 29, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value[1]
U.S. Treasury securities	$ 32,518	$ 24	$ —	$ 32,542
Corporate bonds	31,929	2	(23)	31,908
U.S. Agency bonds	17,632	11	(1)	17,642
Municipal bonds	7,794	20	—	7,814
	$ 89,873	$ 57	$ (24)	$ 89,906

[1] See Note 2 for discussion of fair value measurements.

Maturities of marketable debt securities were as follows (in thousands):

	December 28, 2013		December 29, 2012	
	Amortized Cost	Fair Value[1]	Amortized Cost	Fair Value[1]
Marketable debt securities – current (due in less than one year)	$ 52,122	$ 52,159	$ 51,238	$ 51,264
Marketable debt securities – non-current (due in one to two years)	34,648	34,632	38,635	38,642
	$ 86,770	$ 86,791	$ 89,873	$ 89,906

[1] See Note 2 for discussion of fair value measurements.

During 2013, 2012 and 2011, respectively, $53.3 million, $26.0 million and $10.0 million of marketable debt securities matured and were redeemed at face value. During 2013, there were no other-than-temporary declines in market value.

Other Investments

During 2013, we made a minority equity investment in one of our strategic product-development partners. The carrying value of this investment at December 28, 2013 using the cost method is $4.5 million and is included in other assets on our consolidated balance sheet.

(5) Inventories

Inventories consisted of the following (in thousands):

	December 28, 2013	December 29, 2012
Raw materials	$ 7,118	$ 5,089
Work in progress	505	236
Finished goods	32,529	30,239
	$ 40,152	$ 35,564

Our finished goods inventory, as of December 28, 2013, was comprised of $13.4 million of finished beds, including retail display beds and deliveries in-transit to those customers who have utilized home delivery services, $11.3 million of finished components that were ready for assembly for the completion of beds, and $7.8 million of retail accessories.

Our finished goods inventory, as of December 29, 2012, was comprised of $12.6 million of finished beds, including retail display beds and deliveries in-transit to those customers who have utilized home delivery services, $10.8 million of finished components that were ready for assembly for the completion of beds, and $6.8 million of retail accessories.

(6) Property and Equipment

Property and equipment consisted of the following (in thousands):

	December 28, 2013	December 29, 2012
Land	$ 1,999	$ 1,999
Leasehold improvements	84,659	78,764
Furniture and equipment	46,226	26,957
Production machinery, computer equipment and software	106,072	89,183
Property under capital lease	1,672	1,672
Construction in progress	32,670	12,838
Less: Accumulated depreciation and amortization	(143,756)	(132,057)
	$ 129,542	$ 79,356

During 2013, 2012 and 2011, we recorded asset impairment charges of $0.1 million. The impairment charges in 2013 and 2012 were primarily related to computer software and certain retail store assets. The impairment charges in 2011 were primarily related to underperforming retail stores' assets.

(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 28, 2013		Twelve Months Ended December 29, 2012	
	Goodwill	Indefinite-Lived Trade Name/ Trademarks	Goodwill	Indefinite-Lived Trade Name/ Trademarks
Beginning balance	$ 2,850	$ —	$ 2,850	$ —
Comfortaire purchase	6,113	1,396	—	—
Ending balance	$ 8,963	$ 1,396	$ 2,850	$ —

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 28, 2013		December 29, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Developed technologies(1)	$ 5,231	$ 850	$ 402	$ 371
Customer relationships(1)	2,413	330	—	—
Trade names/trademarks	101	101	101	101
	$ 7,745	$ 1,281	$ 503	$ 472

(1) On January 17, 2013, in connection with the purchase of the business and assets of Comfortaire, we acquired definite-lived intangible assets, including developed technologies of $4.8 million and customer relationships of $2.4 million.

Amortization expense for definite-lived intangible assets for 2013, 2012 and 2011 was $0.8 million, $18 thousand and $23 thousand, respectively. Annual amortization expense for definite-lived intangible assets is expected to be $0.8 million for each of the next five years.

See Note 3, *Purchase of Comfortaire*, for details regarding our purchase of the business and assets of Comfortaire.

(8) Leases

Rent expense was as follows (in thousands):

Facility Rents:	2013	2012	2011
Minimum rents	$ 41,816	$ 36,104	$ 32,928
Contingent rents	5,779	9,813	6,480
Total	$ 47,595	$ 45,917	$ 39,408
Equipment Rents	$ 2,694	$ 2,627	$ 2,469

The aggregate minimum rental commitments under operating leases for subsequent years are as follows (in thousands):

2014	$ 44,549
2015	39,691
2016	36,125
2017	31,101
2018	20,425
Thereafter	45,104
Total future minimum lease payments	$ 216,995

(9) Debt

Credit Agreement

Our $20.0 million Credit Agreement (the “Credit Agreement”) with Wells Fargo Bank, National Association, as amended, is an unsecured revolving credit facility that matures on August 31, 2016. The Credit Agreement contains an accordion feature that allows us to increase the amount of the line from $20.0 million to up to $50.0 million in total availability, subject to lender approval.

Any borrowings under the Credit Agreement will, at our request, be classified as either LIBOR Loans or Adjusted Base Rate (“ABR”) Loans (both as defined in the Credit Agreement). The rate of interest payable by us in respect of loans outstanding under the revolving credit facility is (i) with respect to LIBOR Loans, the Adjusted LIBO Rate (as defined in the Credit Agreement) for the interest period then in effect, plus 1.25%; or (ii) with respect to ABR Loans, the ABR (as defined in the Credit Agreement) then in effect for the Daily One-Month LIBO Rate (as defined in the Credit Agreement), plus 1.50% or the prime rate. We are subject to certain financial covenants under the Credit Agreement, including minimum tangible net worth, a requirement to maintain a minimum amount of cash, cash equivalents and marketable debt securities, and to maintain at the administrative agent cash, cash equivalents and marketable debt securities equal to the amount the lenders are committed to lend under the Credit Agreement.

At both December 28, 2013, and December 29, 2012, we had no borrowings and $20.0 million was available under the Credit Agreement. We had no outstanding letters of credit as of December 28, 2013 or December 29, 2012.

(10) Shareholders' Equity

Stock-Based Compensation Plans

We compensate officers, directors and key employees with stock-based compensation under three stock plans approved by our shareholders in 1997, 2004 and 2010 and administered under the supervision of our Board of Directors ("Board"). At December 28, 2013, a total of 5,956,000 shares were available for future grant under the 2010 stock plan.

Total stock-based compensation expense for 2013, 2012 and 2011, was as follows (in thousands):

	2013	2012	2011
Stock options	$ 2,698	$ 3,688	$ 2,721
Stock awards	1,534	6,618	2,250
Total stock-based compensation expense[1]	4,232	10,306	4,971
Income tax benefit	1,447	3,576	1,710
Total stock-based compensation expense, net of tax	$ 2,785	$ 6,730	$ 3,261

[1] Includes $(0.5) million and $5.6 million of CEO transition (benefit) costs in 2013 and 2012, respectively. See *CEO Transition Costs* on page 57.

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 periods of two to four years and expire after 10 years. Compensation expense is recognized ratably over the vesting period.

A summary of our stock option activity for the year ended December 28, 2013 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]
Outstanding at December 29, 2012	2,889	$ 15.92	5.0	$ 26,109
Granted	265	20.67		
Exercised	(757)	10.52		
Canceled/Forfeited	(643)	24.66		
Outstanding at December 28, 2013	1,754	$ 15.77	5.6	$ 11,812
Exercisable at December 28, 2013	1,185	$ 13.62	4.3	$ 10,180
Vested and expected to vest at December 28, 2013	1,707	$ 15.66	5.5	$ 11,645

[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 for the years ended December 28, 2013, December 29, 2012, and December 31, 2011 is as follows (in thousands, except per share amounts):

	2013	2012	2011
Weighted-average grant date fair value of stock options granted	$ 10.57	$ 14.28	$ 10.91
Total intrinsic value (at exercise) of stock options exercised	$ 7,726	$ 12,724	$ 8,295

Cash received from the exercise of stock options for the fiscal year ended December 28, 2013 was $8.0 million. Our tax benefit related to the exercise of stock options for the fiscal year ended December 28, 2013 was $2.9 million.

At December 28, 2013, there was $4.2 million of total stock option compensation expense related to non-vested awards not yet recognized, which is expected to be recognized over a weighted-average period of 2.0 years.

Determining Fair Value

We estimated the fair value of stock options granted 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.

The assumptions used to calculate the fair value of awards granted during 2013, 2012 and 2011 using the Black-Scholes-Merton option-pricing model were as follows:

Valuation Assumptions	**2013**	**2012**	**2011**
Expected dividend yield	0%	0%	0%
Expected volatility	61%	63%	78%
Risk-free interest rate	0.9%	1.1%	1.9%
Expected term (in years)	5.7	5.6	5.0

Stock Awards

We issue stock awards to certain employees in conjunction with our stock-based compensation plan. The stock awards generally vest from two to four years based on continued employment ("time based"). Compensation expense related to stock awards is determined on the grant date based on the publicly quoted fair market value of our common stock and is charged to earnings on a straight-line basis over the vesting period. Performance stock awards are time based, however, 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 vest ranges from 0% to 150% of the targeted amount. For performance stock awards granted in 2013, the performance targets are net sales and operating margin and the performance period is fiscal 2015. For performance stock awards granted in 2012, the performance target is actual market share growth and the performance period is from January 2012 through December 2014. For performance stock awards granted in 2011, the performance targets were actual market share growth and free cash flow, and the performance period was from January 2011 through December 2013. The actual number of shares that will ultimately vest upon completion of the service period for the 2011 performance stock awards will be 93% of the targeted amount. 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.

Stock award and performance stock award activity was as follows for the year ended December 28, 2013 (in thousands, except per share amounts):

	Time-Based Stock Awards	Weighted-Average Grant Date Fair Value	Performance Stock Awards	Weighted-Average Grant Date Fair Value
Outstanding at December 29, 2012	255	$ 13.62	554	$ 11.47
Granted	88	20.39	119	19.28
Vested	(87)	5.50	(182)	0.97
Canceled/Forfeited	(17)	16.69	(30)	15.05
Outstanding at December 28, 2013	239	$ 18.86	461	$ 17.39

At December 28, 2013, there was $4.0 million of unrecognized compensation expense related to non-vested stock awards, which is expected to be recognized over a weighted-average period of 1.9 years.

Repurchases of Common Stock

Repurchases of our common stock for the years ended December 28, 2013, December 29, 2012 and December 31, 2011 were as follows (in thousands):

	2013	2012	2011
Amount repurchased under Board-approved share repurchase program	$ 40,037	$ 30,023	$ —
Amount repurchased in connection with the vesting of employee restricted stock grants	2,035	4,869	371
Total amount repurchased	$ 42,072	$ 34,892	$ 371

As of December 28, 2013, the remaining authorization under our Board-approved share repurchase program was $136.7 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.

CEO Transition Costs

In February 2012, we announced that William R. McLaughlin, then President and Chief Executive Officer, would retire from the Company effective June 1, 2012. In recognition of Mr. McLaughlin’s contributions, the Company’s Compensation Committee approved the modification of Mr. McLaughlin’s unvested stock awards, including performance 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) in 2012. The performance stock awards are subject to applicable performance adjustments through 2014 based on free cash flow and actual market share growth versus performance targets. 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.

Net Income per Common Share

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

	2013	2012	2011
Net income	$ 60,081	$ 78,094	$ 60,478
Reconciliation of weighted-average shares outstanding:			
Basic weighted-average shares outstanding	54,866	55,516	55,081
Effect of dilutive securities:			
Options	554	1,059	821
Restricted shares	383	501	530
Diluted weighted-average shares outstanding	55,803	57,076	56,432
Net income per share – basic	$ 1.10	$ 1.41	$ 1.10
Net income per share – diluted	$ 1.08	$ 1.37	$ 1.07

Additional potential dilutive stock options totaling 1,288,000, 272,000 and 1,537,000 for 2013, 2012 and 2011, 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 Income (Expense), Net

Other income (expense), net, consisted of the following (in thousands):

	2013	2012	2011
Interest income	$ 375	$ 310	155
Interest expense	(52)	(92)	(188)
Other income (expense), net	$ 323	$ 218	$ (33)

(12) Income Taxes

Income tax expense consisted of the following (in thousands):

	2013	2012	2011
Current:			
Federal	$ 25,091	$ 34,993	$ 23,481
State	3,802	3,419	3,622
	28,893	38,412	27,103
Deferred:			
Federal	1,953	2,176	2,434
State	84	1,323	405
	2,037	3,499	2,839
Income tax expense	$ 30,930	$ 41,911	$ 29,942

The following table provides a reconciliation between the statutory federal income tax rate and our effective income tax rate:

	2013	2012	2011
Statutory federal income tax	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.0	2.9	3.2
Manufacturing deduction	(3.2)	(3.1)	(2.9)
Changes in unrecognized tax benefits	0.3	(0.2)	(0.8)
Other	(1.1)	0.3	(1.4)
Effective income tax rate	34.0%	34.9%	33.1%

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 2010 or state income tax examinations prior to 2009.

Deferred Income Taxes

The tax effects of temporary differences that give rise to deferred income taxes were as follows (in thousands):

Deferred tax assets:	2013	2012
Current:		
Warranty and returns liabilities	$ 4,376	$ 3,040
Compensation and benefits	1,379	1,448
Deferred rent and lease incentives	857	867
Other	539	246
Long-term:		
Stock-based compensation	5,944	8,061
Deferred rent and lease incentives	4,524	3,237
Warranty liabilities	605	563
Net operating loss and capital loss carryforwards	827	1,339
Other	1,111	459
Total gross deferred tax assets	20,162	19,260
Valuation allowance	(587)	(647)
Total deferred tax assets after valuation allowance	19,575	18,613
Deferred tax liabilities:		
Long-term:		
Property and equipment	7,696	4,701
Total gross deferred tax liabilities	7,696	4,701
Net deferred tax assets	$ 11,879	$ 13,912

At December 28, 2013, we had net operating loss carryforwards for state income tax purposes of $5.0 million which will expire between 2014 and 2033.

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.

Unrecognized Tax Benefits

Reconciliations of the beginning and ending amounts of unrecognized tax benefits for 2013, 2012 and 2011 were as follows (in thousands):

	Federal and State Tax		
	2013	2012	2011
Beginning balance	$ 213	$ 425	$ 1,354
Increases related to current-year tax positions	149	18	292
Increases related to prior-year tax positions	112	—	355
Decreases related to prior-year tax positions	—	(230)	—
Settlements with taxing authorities	—	—	(1,506)
Lapse of statute of limitations	—	—	(70)
Ending balance	$ 474	$ 213	$ 425

As of December 28, 2013, we had $0.5 million of unrecognized tax benefits, which if recognized, would affect our effective tax rate. As of December 29, 2012, we had $0.2 million 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.

In 2013, 2012 and 2011, we included $21 thousand, $20 thousand and $(0.2) million, respectively, of net penalties and interest in income tax expense. At December 28, 2013, and December 29, 2012, we had accrued interest and penalties of $22 thousand and $0.1 million, respectively.

(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 2013, 2012 and 2011, our contributions, net of forfeitures, were $3.0 million, $2.5 million and $1.8 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 results of operations, financial position or cash flows. We expense legal costs as incurred.

On August 23, 2013, we filed a complaint in U.S. District Court in the District of Minnesota against Gentherm, Inc. seeking a declaratory judgment that Select Comfort be named as an assignee of certain patents asserted against Select Comfort by Gentherm or in the alternative that the asserted patents are not enforceable or are invalid or that Select Comfort and its products do not infringe any valid claim of the asserted patents. This complaint was filed after Gentherm asserted in a letter that Select Comfort's recently introduced DualTemp™ layer product infringed certain patents owned by Gentherm. Subsequently, Gentherm filed counterclaims alleging infringement of its patents and seeking various legal and equitable remedies, including injunctive relief, treble damages and attorney's fees. We believe the claims asserted by Gentherm are without merit, and we intend to vigorously pursue our claims and defend the claims asserted by Gentherm.

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 28, 2013, we had $4.8 million of inventory purchase commitments with our suppliers as part of the normal course of business. There are a limited number of supply contracts that contain penalty provisions for failure to purchase contracted quantities. We do not currently expect any payments under these provisions. At December 28, 2013, we had entered into 32 lease commitments for future retail store locations. These lease commitments provide for minimum rentals over the next five to ten years, which if consummated based on current cost estimates, would approximate $30.9 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 for 2013 and 2012. Figures are in thousands except earnings per share amounts. Amounts may not add due to rounding differences.

2013	**First**	**Second**	**Third**	**Fourth**	**Fiscal Year**
Net sales	$ 258,237	$ 207,391	$ 263,689	$ 230,854	$ 960,171
Gross profit	163,416	131,398	166,420	140,521	601,755
Operating income	35,227	15,107	30,699	9,655	90,688
Net income	23,471	9,926	20,259	6,425	60,081
Net income per share – diluted	0.42	0.18	0.36	0.12	1.08

2012	**First**	**Second**	**Third**	**Fourth**	**Fiscal Year**
Net sales	$ 262,383	$ 205,219	$ 246,817	$ 220,559	$ 934,978
Gross profit	164,299	131,571	160,729	139,947	596,546
Operating income	34,296	25,852	40,225	19,414	119,787
Net income	22,417	16,973	26,209	12,495	78,094
Net income per share – diluted	0.39	0.30	0.46	0.22	1.37

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 (1992)* 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 28, 2013. 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 28, 2013 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 2014 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*. 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 2014 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 2014 Annual Meeting of Shareholders is incorporated herein by reference.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes information about our equity compensation plans as of December 28, 2013:

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	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	1,754,000	$ 15.77	5,956,000
Equity compensation plans not approved by security holders	None	Not applicable	None
Total	1,754,000	$ 15.77	5,956,000

(1) Includes the Select Comfort Corporation 1997 Stock Incentive Plan, the Select Comfort Corporation 2004 Stock Incentive Plan and the Select Comfort Corporation 2010 Omnibus Incentive Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information under the caption "Corporate Governance" in our Proxy Statement for our 2014 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 2014 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 Profit Sharing and 401(K) Plan – 2007 Restatement

11. Select Comfort Executive Investment Plan (July 1, 2012 Restatement)

12. Employment Letter from the Company to Shelly R. Ibach dated February 9, 2007

13. Employment Letter from the Company to Kathryn V. Roedel dated March 8, 2005

14. Employment Letter from the Company to Wendy L. Schoppert dated March 15, 2005

15. Employment Letter from the Company to Mark A. Kimball dated April 22, 1999

16. Summary of Executive Health Program

17. Summary of Executive Tax and Financial Planning Program

18. Amended and Restated Select Comfort Corporation Executive Severance Pay Plan

19. First Amendment to Amended and Restated Select Comfort Corporation Executive Severance Pay Plan

20. 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 21, 2014	By:	/s/ Shelly R. Ibach
		Shelly R. Ibach Chief Executive Officer (principal executive officer)
	By:	/s/ Wendy L. Schoppert
		Wendy L. Schoppert 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, Wendy L. Schoppert 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 19, 2014
/s/ Shelly R. Ibach Shelly R. Ibach	Director	February 21, 2014
/s/ Daniel Alegre Daniel Alegre	Director	February 19, 2014
/s/ Stephen L. Gulis, Jr. Stephen L. Gulis, Jr.	Director	February 17, 2014
/s/ Michael J. Harrison Michael J. Harrison	Director	February 15, 2014
/s/ David T. Kollat David T. Kollat	Director	February 15, 2014
/s/ Brenda J. Lauderback Brenda J. Lauderback	Director	February 18, 2014
/s/ Kathleen L. Nedorostek Kathleen L. Nedorostek	Director	February 17, 2014
/s/ Michael A. Peel Michael A. Peel	Director	February 19, 2014

SELECT COMFORT CORPORATION
EXHIBIT INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 28, 2013

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 as of September 19, 2002 between the Company and Blind John, LLC (as successor to Frastacky (US) Properties Limited Partnership)	Incorporated by reference to Exhibit 10.6 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 28, 2002 (File No. 0-25121)

Exhibit No.	Description	Method of Filing
10.9	Amendment Three to Lease between Select Comfort Corporation and Blind John, LLC dated February 28, 2012	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed March 2, 2012 (File No. 0-25121)
10.10	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)
10.11	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	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)
10.13	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)
10.14	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)
10.15	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)
10.16	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)
10.17	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)
10.18	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)
10.19	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)
10.20	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
10.21	Select Comfort Profit Sharing and 401(K) Plan - 2007 Restatement	Incorporated by reference to Exhibit 10.22 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 30, 2006 (File No. 0-25121)
10.22	Select Comfort Executive Investment Plan (July 1, 2012 Restatement)	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed July 2, 2012 (File No. 0-25121)
10.23	Employment Letter from the Company 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 Letter from the Company to Kathryn V. Roedel dated March 8, 2005	Incorporated by reference to Exhibit 10.17 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-25121)
10.25	Employment Letter from the Company to Wendy L. Schoppert dated March 15, 2005	Incorporated by reference to Exhibit 10.18 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-25121)
10.26	Employment Letter from the Company 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)
10.27	Summary of Executive Health Program	Incorporated by reference to Exhibit 10.36 contained in Select Comfort's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-25121)
10.28	Summary of Executive Tax and Financial Planning Program	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed January 3, 2005 (File No. 0-25121)
10.29	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)
10.30	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).
10.31	Summary of Non-Employee Director Compensation	Filed herewith.
10.32	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)
10.33	Amended and Restated Private Label Consumer Credit Card Program Agreement dated as of December 14, 2005 between GE Money Bank and Select Comfort Corporation and Select Comfort Retail Corporation (1)	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed December 20, 2005 (File No. 0-25121)

Exhibit No.	Description	Method of Filing
10.34	First Amendment to Amended and Restated Private Label Consumer Credit Card Program Agreement dated as of April 23, 2007 between GE Money Bank and 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 April 27, 2007 (File No. 0-25121)
10.35	Second Amendment to Amended and Restated Private Label Consumer Credit Card Program Agreement dated as of February 1, 2008 between GE Money Bank and Select Comfort Corporation and Select Comfort Retail Corporation	Incorporated by reference to Exhibit 10.3 contained in Select Comfort's Current Report on Form 8-K filed February 7, 2008 (File No. 0-25121)
10.36	GE Waiver and Consent dated May 21, 2009	Incorporated by reference to Exhibit 10.6 contained in Select Comfort's Current Report on Form 8-K filed May 26, 2009 (File No. 0-25121)
10.37	Ninth Amendment to Amended and Restated Private Label Consumer Credit Card Program Agreement dated June 29, 2011 (1)	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed July 6, 2011 (File No. 0-25121)
10.38	Tenth Amendment to Amended and Restated Private Label Consumer Credit Card Program Agreement dated July 18, 2011	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed July 22, 2011 (File No. 0-25121)
10.39	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)
10.40	Eleventh Amendment to Amended and Restated Private Label Consumer Credit Card Program Agreement dated June 18, 2012 (1)	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed June 20, 2012 (File No. 0-25121)
10.41	Credit Agreement, dated March 26, 2010, by and among Select Comfort Corporation and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed March 29, 2010 (File No. 0-25121)
10.42	Amendment to Credit Agreement, dated April 23, 2012, by and among Select Comfort Corporation and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed April 24, 2012 (File No. 0-25121)
10.43	Amendment to Credit Agreement, dated October 15, 2013, by and among Select Comfort Corporation and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.1 contained in Select Comfort's Current Report on Form 8-K filed October 18, 2013 (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 filed February 21, 2013 (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

Exhibit No.	Description	Method of Filing
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)]
101	The following financial information from the Company's Annual Report on Form 10-K for the year ended December 28, 2013, filed with the SEC on February 21, 2014, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets as of December 28, 2013 and December 29, 2012; (ii) Consolidated Statements of Operations for the years ended December 28, 2013, December 29, 2012 and December 31, 2011; (iii) Consolidated Statements of Comprehensive Income for the years ended December 28, 2013, December 29, 2012 and December 31, 2011; (iv) Consolidated Statement of Shareholders' Equity for the years ended December 28, 2013, December 29, 2012 and December 31, 2011; (v) Consolidated Statements of Cash Flows for the years ended December 28, 2013, December 29, 2012 and December 31, 2011; 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	2013	2012	2011
Allowance for doubtful accounts			
Balance at beginning of period	$ 348	$ 397	$ 302
Additions charged to costs and expenses	776	246	275
Deductions from reserves	(699)	(295)	(180)
Balance at end of period	$ 425	$ 348	$ 397
Accrued sales returns			
Balance at beginning of period	$ 5,330	$ 4,402	$ 2,944
Additions charged to costs and expenses	59,656	44,284	40,449
Deductions from reserves	(55,553)	(43,356)	(38,991)
Balance at end of period	$ 9,433	$ 5,330	$ 4,402

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