Sleep Number
Supplier Quality Manual (SQM)

4011-ML-01 Rev A

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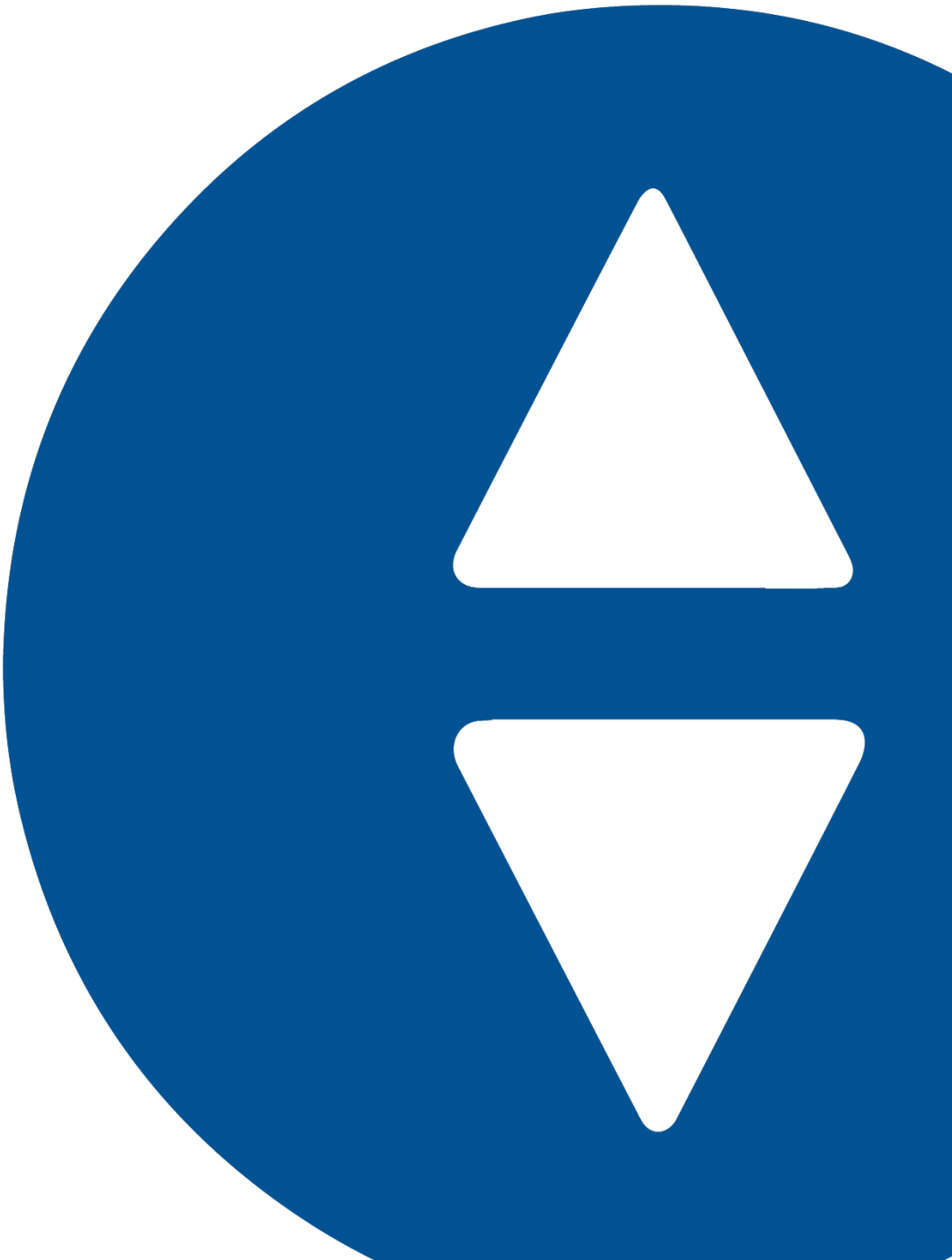

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1.0 Introduction

Our core values are at the heart of our mission. Our culture defines our brand because everything we do centers on our customer and each other.

Five values support our culture:

This manual defines the minimum quality requirements, processes, and systems for doing business with Sleep Number—and aligns Suppliers to Sleep Number's customer expectations. The manual outlines processes used to ensure that Sleep Number's supply base is providing top-level performance and is continually improving to prevent quality and delivery disruptions. It is the responsibility of the Supplier's leadership to ensure compliance to this manual.

Sleep Number recognizes that Suppliers are instrumental in meeting the commitment to obtaining on-time, defect-free products to the end consumer. The goal is only achieved by attaining a collaborative relationship based on mutual trust, respect, and open communication.

2.0 Scope

The content in this manual applies to

- All direct Suppliers providing existing and new materials, parts, assemblies, and services which directly impact the quality of Sleep Number products
- The product life cycle, which encompasses three main areas: Supplier qualification, new production development/introduction, and production
- Quality requirements, which are in addition to all engineering requirements

Sleep Number's relationship with Suppliers is defined by the provisions, terms, and conditions of the purchase order, or—where applicable—the contract with the Supplier. Compliance with the guidelines of this manual or acceptance/approval of the Supplier's parts or materials does not relieve the Supplier of any obligations or liabilities stated in the purchase order or contract.

In the event of conflict, the following order of precedence shall apply:

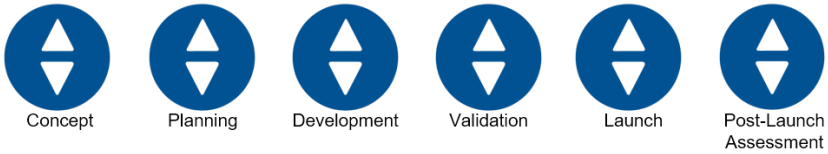
- Design Record
- Purchase Order/Contract
- Procurement Specifications
- Supplier Quality Manual

3.0 General Expectations

Our Mission	Our Vision
To improve lives by individualizing sleep experiences	To become the world's most beloved brand by delivering unparalleled sleep experiences

Product Lifecycle

The Product Lifecycle is the stage-gate process Sleep Number follows for a product launch. At any place within this document, refer to the Sleep Number logos below to indicate what part of our product lifecycle that section of the manual applies to. If the logo is blue, that section applies to that stage of our product lifecycle. General Expectations apply to all stages as indicated below.



Critical Definitions:

- Shall – The word "Shall" indicates mandatory requirements.
- Should – The word "Should" indicates a recommendation.

Sleep Number suppliers shall strive to deliver zero defects to our plants, hubs, and customers. Obtaining zero defects requires a proactive approach to managing quality that focuses on prevention, continuous improvement, and immediate incorporation of lessons learned. These concepts should be embedded within the supplier's quality management system to drive an unparalleled Sleep Number customer experience:

- Review, understand and ensure compliance to this manual as a part of doing business with Sleep Number.
- Adhere to all quality requirements.
- Ensure that Sleep Number requirements are adequately communicated to their Sub-Tier suppliers

Sleep Number will provide updates and revisions to this manual as necessary. Suppliers are expected to incorporate these updates and revisions into their quality system in a timely manner. If changes generate a question or potential problem for a supplier, it is the supplier's responsibility to bring the issue to the attention of Sleep Number.

4.0 Quality Management Requirements

Sleep Number recommends that the Supplier's QMS is either registered or compliant to the current ISO 9001 or IATF 16949 requirement. If the Supplier is not registered to one of the standards, the Supplier is encouraged to become registered.

The Supplier's QMS shall:

- Support Sleep Number's quality requirements as defined in this manual
- Ensure, no less than annually, that a comprehensive quality system audit is conducted and available upon request. The audit may be conducted internally, by a third party, or by Sleep Number. Sleep Number reserves the option of requesting that the Supplier take specific action(s) upon review of the audit results

Sleep Number shall:

- Develop a Supplier audit frequency based on product risk and maintain that schedule in the Supplier Relationship Management (SRM) system. The supplier audit frequency shall be communicated to the supplier.

4.1 Sub-Tier Management

Suppliers are fully responsible to manage Sub-Tier Supplier performance in order to meet or exceed Sleep Number business expectations. Suppliers shall establish and maintain procedures to ensure Sub-Tier Suppliers comply with the functional requirements defined in this manual. Procedures shall include but are not limited to

- Distribution of drawings/specifications
- Distribution of quality requirements/packaging and label standards
- Proper level of part traceability (lot/date codes)

Tier 1 Suppliers shall maintain revision control methods that are properly embedded in their systems and that can be retrieved within a 24-hour notice. Tier 1 Suppliers shall ensure Sub-Tier (or Tier 2) Suppliers are managing proper material lead times and maintenance of fixtures and tooling. Tier 1 Suppliers shall provide the remaining useful life of tools, including those within the Sub-Tier Supplier base, on an annual basis to Sleep Number.

4.2 Resource Management

Employees shall be qualified for their respective jobs through education, training, and work experience.

Employees shall be knowledgeable about appropriate quality tools and processes that affect the quality of products and services provided to Sleep Number.

Employees shall be provided with equipment, facilities, and a work environment conducive to producing high-quality products and services that consistently meet functional requirements and product specifications.

4.3 Test and Measurement Equipment

Overview: The Supplier shall identify key process equipment, provide resources for machine/equipment maintenance activities, and develop an effective planned total preventive maintenance system.

Description: The Supplier shall determine the monitoring, measurements, and maintenance to be performed and the devices needed to provide evidence of a product's conformity to determined requirements. Sleep Number shall review and approve the Supplier's proposal.

At a minimum, and where necessary to ensure valid results, measuring equipment shall be

- calibrated or verified at specified intervals, or prior to use, against measurement standards
- traceable to international or domestic measurement standards; where no such standards exist, the basis used for calibration or verification shall be recorded
- maintained in a system used to track the calibration status

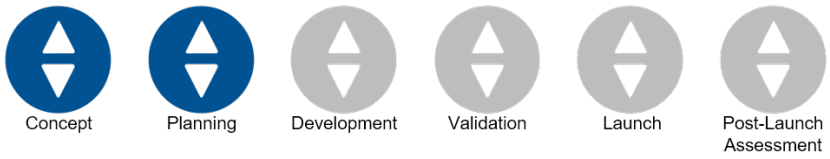
4.4 Process and Record Control

Overview: The Supplier shall prepare documented process monitoring and operator instructions for all employees responsible for process operation of Sleep Number components and products. These instructions shall be easily accessible for use by the production manufacturing personnel.

Description: Suppliers shall establish and document process standards and controls for all aspects of the manufacturing operations. This is necessary in order to prevent defective products from being delivered to Sleep Number and to ensure production operation consistency, enable continuous improvement, and control cost. Process controls shall be referenced in an approved control plan when required/appropriate.

Process monitoring and operator instructions may take the form of process sheets, inspection and laboratory test instructions, shop travelers, test procedures, standard operation sheets, calibration and Gage R&R recurrence schedules, or other documents normally used by the Supplier.

- Supplier quality records shall be established to provide evidence of conformity to Sleep Number and industry requirements.
- Sleep Number expects Suppliers to maintain all quality records and applicable test specimens for the life of the product plus one year.
- All Supplier communication to Sleep Number shall be in English, including but not limited to forms, part approval submissions, product assurance documentation, and general communication.



5.0 Supplier Qualification

Sleep Number follows a structured stage-gate governed process to assure the best Supplier(s) for the business need are selected, which allows for a successful long-term business partnership. Effective qualification, training, and onboarding have mutual benefits for both the Supplier and Sleep Number, including improved alignment of goals and reduced risk at launch.

The qualification and onboarding process deliverables vary dependent on the criticality of component(s) being supplied as well as on the business needs.

Common deliverables include the following:

- Supplier Business Profile and Financial Risk Assessment
- Supplier-led Self-Assessment(s)
- Sleep Number– led QMS/Manufacturing Assessment(s)
- Gap Closure and Action Plan
- Comprehensive Training Plan

Upon successful completion of the required deliverables, the potential Supplier is qualified and added to the Qualified Supply Base (QSB) for consideration of future business, but only for goods and services in the categories for which they were approved.

If an existing Supplier to Sleep Number is expanding into any additional categories or adding a new location, they must follow this process and be approved before they can ship product in the new category, or from the new location. To avoid disruption to future shipments, it is important for Suppliers to notify their Sleep Number Sourcing Manager or Supplier Quality Representative promptly when these business changes are anticipated, to allow enough time to complete the approval process.

5.1 Supplier Business Profile / Financial Risk Assessment

Overview: The Supplier Business Profile / Financial Risk Assessment is a collection of critical business information related to the manufacturing and/or distribution location(s). This profile is initially used as part of the Supplier qualification process.

Description: Upon qualification, this information is used for future business consideration, corporate communication, and Supplier relationship management. The Supplier Business Profile is required upon request and shall be returned to sourcing for review.

Note: If any business changes are made from the initial profile submitted, it is up the Supplier to notify Sleep Number of those changes.

5.2 Supplier Self-Assessment

Overview: The Supplier Self-Assessment is used by the Supplier to assess the performance of their QMS, manufacturing capability, and capacity.

Description: Once a prospective Supplier is identified, a Supplier development representative will send the Sleep Number Self-Assessment form to them. The Supplier should perform this self-assessment accurately and return it to Sleep Number in a timely manner. Assessment questions will auto-generate an overall score as well as specific category/element scores. Sleep Number uses this assessment as a guide for the Sleep Number–led assessment(s).

5.3 Sleep Number–Led Assessments

Overview: There are two types of Sleep Number– led assessment tools:

- QMS Assessment: used to assess the Supplier's level of implementation toward an effective QMS
- Manufacturing Assessment: used to assess the Supplier's ability to consistently manufacture a product that meets Sleep Number expectations

Description: The objective of the Sleep Number–led assessment is to ensure the highest quality standards resulting in an optimal customer experience. The assessment, in general, evaluates the Supplier's QMS, manufacturing processes, delivery performance, and technological capabilities. These assessments may be performed at any time during the product life cycle.

Sleep Number will perform the assessment on-site at the Supplier's location. If multiple locations are used, each site will have a separate assessment. The results of the assessment will be used to determine if any further Supplier development plans are appropriate.

5.4 Supplier Development Plan

Overview: The Supplier Development Plan is a tool used to address deficiencies found in the Sleep Number–led assessments. In the last stage of the Supplier qualification process, this stage is intended to support the Supplier by providing the tools and training necessary to drive systemic performance improvements.

Description: Once Sleep Number identifies area(s) of opportunity, the Supplier shall submit a corrective action plan to address and correct the deficiencies. Sleep Number will then reassess and validate that the improvements meet or exceed Sleep Number's quality level

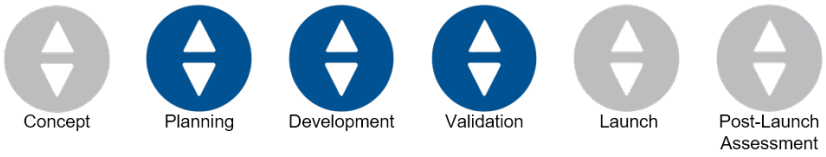
5.5 Qualified Supply Base (QSB)

Overview: QSB is a concept used to evaluate Supplier performance and to identify areas of improvement. The QSB score is used as a factor for future sourcing decisions and is a subset to the Supplier Scorecard.

Description: QSB is a combination of quality and delivery metrics based on the last 6-months of performance data and is grouped into four categories:

- Supplier Development
- Supplier Quality
- Product Assurance
- Supplier Performance

For each category(s) of supplied parts, scoring indicates a qualified or conditional status. A Qualified or Non-Qualified status will be scored and used as an input to Sleep Number's sourcing decisions, including whether to maintain current business. Non-Qualified status denotes that multiple indicators of performance are below the minimum allowable threshold. As part of the Non-Qualified status, the Supplier is placed on new business hold. The minimum threshold between Qualified or Non-Qualified status may be adjusted to adapt to changing Sleep Number quality requirements.



6.0 Product Qualification

Sleep Number uses a New Product Introduction (NPI) stage-gate life cycle process when developing and qualifying new products.

Sleep Number's Product Qualification Process is modeled from the Advanced Product Quality Planning (APQP) structure. The goal of this process is to create a product quality plan for developing and manufacturing products that meet or exceed our customer requirements. Methodical and sequenced production qualification helps sustain successful and long-term business partnerships.

The APQP uses a four-phase process:

- Product Planning and Quality Program
- Product Design and Development
- Process Design and Development
- Validation of Product and Process

6.1 Advanced Product Quality Planning (APQP)

Overview: The APQP framework is a structured method of defining and establishing the steps necessary to assure that a product satisfies the customer.

Description: The primary goal of APQP is to

- Facilitate collaboration and communication
- Ensure the voice of the customer is clearly understood and translated into requirements, technical specifications, and characteristics
- Reduce risk associated with the launch of a new product by early identification of required changes and avoidance of late design changes

As a project moves through the NPI stage-gate process at Sleep Number, a set of deliverables are determined and communicated to the Supplier for engagement. The level of the qualification process varies depending on the criticality of the component(s) and Sleep Number business needs. Reconciling issues will be critical before moving to the next stage of the NPI process (product launch).

6.1.1 Product Planning and Quality Program

The product planning phase includes gathering necessary data to define customer needs and translate that to product characteristics. The quality program defines the product reliability, quality goals, and manufacturing quality assurance plan. It is very important to also consider the historical warranty and quality information.

The output will be setting design goals, reliability and quality goals, and cost of nonconformance targets; creating preliminary BOMs and process flows; and, most importantly, making sure the customer needs and expectations are understood.

6.1.2 Product Design and Development

The product design and development phase captures outputs from the product planning phase such as design features and characteristics and are developed into a near-final form. The Supplier should consider all design factors in this quality planning process, even if the design is owned by the customer. The steps listed below are employed to verify that the product or service meets the objectives of Sleep Number.

6.1.2.1 Technical Drawing Review

Technical drawing and specifications reviews are an essential element for a clear and comprehensive understanding of Sleep Number requirements. The result of this review is a thorough understanding regarding drawings, compliance requirements, functionality of the parts, and any subsequent specifications needed.

Technical drawing reviews are essential for communicating ideas, changes, or potential cost savings from the Supplier to Sleep Number. The design review is also needed to make sure the drawings, symbols, perspectives, units of measurement, notation systems, visual styles, and page layout, etc., are understood by the Supplier.

Suppliers are ultimately responsible for the review of Sleep Number drawings, related specifications, and standards to ensure the Supplier's ability to meet Sleep Number requirements.

Suppliers shall adhere to the latest design revision and maintain proper document control. Only current revision levels as noted on the purchase order may be used for production purposes unless a Sleep Number deviation is granted. Obsolete revision levels shall be controlled in a manner that ensures they are not used for production.

6.1.2.2 Design Failure Mode & Effects Analysis (DFMEA)

The DFMEA is a disciplined analytical technique that assesses the probability of failure as well as the effect of such failure. A DFMEA is a living document continually updated as required by customer needs and expectations. Preparing the DFMEA provides the team an opportunity to review the previously selected product and process characteristics and make necessary additions, changes, and deletions.

6.1.3 Process Design and Development

The focus on process planning throughout the development of the process design will produce improved product while ensuring specifications, product quality, and production costs are met.

This phase consists of developing the major features of a manufacturing system and the related control plans to achieve quality products. The tasks to be accomplished at this step of the product quality planning process depend upon the successful completion of the prior phases. This step is designed to ensure the comprehensive development of an effective manufacturing system.

6.1.3.1 Process Failure Mode & Effects Analysis (PFMEA)

A PFMEA is a disciplined review and analysis of a new/revised process and is conducted to anticipate, resolve, or monitor potential process problems for a new/revised product program. The PFMEA should also be conducted during product quality planning and before beginning production. A PFMEA is a living document and needs to be reviewed and updated as new failure modes are discovered. Any high failure modes or risks from the DFMEA (see 6.1.2.2) are a critical input to the PFMEA. Compilation of the PFMEA should include and identify all the process steps in the DFMEA that may compromise parts.

6.1.3.2 Process Control Plan

The Process Control Plan is a document that describes the actions (measurements, inspections, quality checks, or monitoring of process parameters) required at each phase of a process to assure the process outputs will conform to pre-determined requirements. The control plan provides an operator or inspector with the information required to properly control the process and produce quality parts or assemblies. It should also include instructions regarding actions taken if nonconformance is detected.

The control plan does not replace detailed operator/inspector instructions. In some cases, the control plan is used in conjunction with an inspection sheet or checklist. The control plan helps assure quality is maintained within a process in the event of employee turnover by establishing a standard for quality inspection and process monitoring. Control plans are living documents that should be periodically updated as the measurement methods and controls are improved throughout the life cycle of the product.

6.1.4 Validation of Product and Process

The validation of product and process phase consists of validating the manufacturing process through a production trial run evaluation. During a production trial run, the Supplier shall validate that the control plan and process flow chart are being followed and the products meet customer requirements. Additional concerns shall be identified for investigation and resolution prior to regular production runs. The validation of the manufacturing process phase includes confirming capability and reliability of the manufacturing process and product quality acceptance. The output of this phase is an approved PPAP (noted below).

6.1.4.1 Launch Readiness Review

A complete evaluation of launch readiness reviews will be evaluated by Sleep Number to make sure the Supplier has all the necessary documents, processes, and procedures in place prior to PPAP submission (see 6.1.4.2).

The launch readiness review is an assessment of a Supplier's readiness to manufacture and produce the intended design. This process also verifies all key process elements are identified on the control plan and are in place prior to full production. The output of this review performed by Sleep Number will determine if the Supplier is ready to begin the next step in the process.

6.1.4.2 Production Part Approval Process (PPAP)

PPAP is a rigorous, structured process for part qualification and is required for approval of any new or changed parts that are used for production by the Supplier. The Sleep Number PPAP package is comprised of 14 elements and is modeled from the *Production Part Approval Process (PPAP) 4th Edition* by the Automotive Industry Action Group (AIAG).

A PPAP provides evidence that all customer engineering design records and specification requirements are properly understood and implemented by the Supplier. PPAP also demonstrates that the manufacturing process has the potential to produce a product that consistently meets all requirements during an actual production run at the quoted production rate. This process shall be used in conjunction with and during the NPI stage-gate process. Suppliers shall ensure the PPAP is performed at their Sub-Tier Suppliers as required.
Sleep Number may request PPAP for parts that meet the following conditions:

- New or Changed Parts
- Tooling Changes
- Supplier Changes
- Process and Product Changes
- Appearance Changes

Refer to the table below for Sleep Number PPAP requirements.

Sleep Number PPAP requirements:

Sleep Number NPI Stage	Requirement	Sleep Number PPAP Level				
		1	2	3	4	5
Planning (Stage 1)	Process Flowchart		X	X	X	X
Development (Stage 2)	BOM Analysis		X	X	X	X
	DFMEA			*	*	*
	PFMEA			X	X	X
Validation (Stage 3)	Capability Study			X	X	X
	Material, Performance Test Results			X	X	X
	Full-Layout		X	X	X	X
	Control Plan			X	X	X
	Gage R&R (if applicable)			X	X	X
	Appearance Approval Report (AAR) (if applicable)	X	X	X	X	X
	Packaging Approval		X	X	X	X
	Certificates (COA, COC)				X	X
	Sample Product (Master)					X
	Warrant	X	X	X	X	X

* Required if Supplier has design control.

Additional PPAP notes:

- Requirements shown for each PPAP level are minimum requirements
- PPAP's that require level 5 will be performed on site at the supplier's manufacturing location.

Sleep Number does not accept separate charges for the cost of PPAP development. Suppliers shall factor the cost of PPAP development into the overall cost of doing business.

The Run @ Rate shall be performed before the Supplier has attained a PPAP approval, unless otherwise approved by Sleep Number's supplier quality representative.

All PPAP submissions shall have conditional or full approval by Sleep Number prior to product shipment.

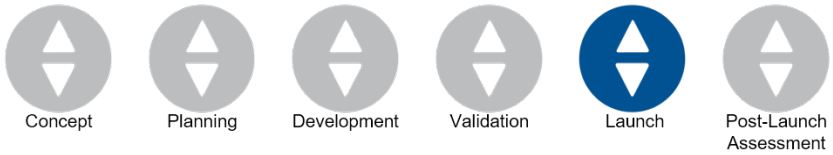
6.1.4.3 Run @ Rate

The purpose of the Run @ Rate is to verify that a Supplier's manufacturing process can produce quality products according to the Sleep Number forecast or plan. During the Run @ Rate, the Supplier's manufacturing process will be assessed to verify its ability to meet the quality and capacity requirements as contracted and detailed in the Process Control Plan.

The duration of the Run @ Rate shall be sufficient to verify that the process can meet the Sleep Number forecast needs. The default length of the Run @ Rate will be equal to the Supplier's standard daily work hours.

Unless agreed to in advance, a quality representative from Sleep Number shall be present for the Run @ Rate. Sleep Number may agree in advance to accept the results of a portion of the Run @ Rate without being present. Suppliers shall ensure the Run @ Rate is performed at their Sub-Tier Suppliers as required.

Should the Run @ Rate results fail to meet the requirements for quality or capacity, a corrective action plan must be submitted to and approved by Sleep Number.



7.0 Launch

The full-scale production launch occurs in this stage, with emphasis on evaluating and improving processes. Mainstays in this stage include reducing process variation, collecting customer feedback, and assessing process efficiency and quality planning effectiveness. Discrepancies identified shall be documented and corrective actions completed as appropriate.

7.1 Safe Launch

Overview: Safe Launch is an enhanced quality-control method that Suppliers use to ensure production excellence at launch.

Note: Sleep Number shall reserve the right to use third-party resources or internal personnel to conduct Safe Launch activities where needed within the value chain as required.

Description: The Safe Launch adds a temporary layer of additional inspection and real-time reporting that provides critical support to the supply chain during the challenging initial stages of new processes and production. Suppliers shall also implement Safe Launch as a quality gate to certify a known nonconformity has been properly contained or corrected, or to validate the effectiveness of corrective or preventive actions.

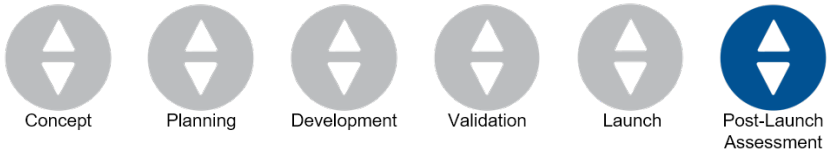
The Safe Launch process is utilized once the product has been through all the manufacturing and assembly processes and is prepared for shipment to a Sleep Number production facility.

During Safe Launch, an increased inspection frequency—beyond that defined by the production control plan—must be considered. This could include alternate gaging equipment or techniques, secondary and tertiary inspections on production gaging, or supervisory audit inspections.

Safe Launch Tools:

- Acceptable Quality Limits (AQL)
  Increased sample sizes and duration for this heightened inspection period will be determined and agreed upon by both Sleep Number and the Supplier. In some cases, 100% inspection may be required.
- Supplier Safe Launch Metrics
  Supplier shall begin and maintain internal metrics during the Safe Launch stage and after the stage has ended.
- Sleep Number Metrics
  Sleep Number will provide the Supplier with SCARs (see 8.2.2), DMRs (see 8.2.1), Warranty Returns, and Reschedule data for monitoring and reporting.

All Safe Launch products shall be identified when requested, and Suppliers shall clearly mark packaging and products as such. Sleep Number shall approve the exit of Safe Launch when the Supplier has achieved an agreed upon number of defect free shipments or quantity.



8.0 Post-Launch Requirements

Launch is the final stage-gate. During this stage, the Supplier and Sleep Number communicate and review any lessons learned during the entire life cycle process. Post-launch activities also include scorecard reviews, business reviews, and any ongoing quality metrics required to sustain the qualification parameters as outlined above.

8.1 Deviation Request and Request for Change

Overview: A deviation request is initiated to request temporary acceptance to ship product that does not conform to the Sleep Number drawing, engineering specification, or quality standards. A request for change is initiated to request a permanent change to a drawing, engineering specification, or quality standard. Suppliers are expected to make recommendations for changes to drawings or specifications upon initial part quotation.

Drawing Request for Change – Change requests shall be submitted and approved prior to the part qualification submission. Suppliers are not authorized to ship products that do not meet the drawing unless the products are accompanied by a deviation that has been approved by Sleep Number.

Process Request for Change – Suppliers shall submit a change request for all changes that occur after PPAP approval. This requirement includes the rework of material, which is done outside of the approved process (e.g. rework not documented on the approved process flow diagram, PFMEA, and production control plan). The Supplier must receive approval from Sleep Number prior to shipping products or implementing any change.

Deviation – A deviation request is used to request temporary acceptance to ship product that doesn't conform to the Sleep Number drawing, engineering specification, or quality standard. Sleep Number requires prior notification and has the right to refuse any deviations. Sleep Number approval is required before the Supplier ships non-conforming product. Suppliers shall exhaust all suitable options to manufacture parts to Sleep Number requirements prior to submitting a deviation request.

Deviations shall define a set quantity of affected product for shipment within a prescribed time frame. The Supplier shall never request a deviation to bypass the PPAP system. Deviations can be used in conjunction with a PPAP approval or interim approval, but not as a substitute. The request for deviation shall be accompanied by corrective action and an implementation date. For additional information, please contact the Sleep Number supplier quality representative.

Description: The Supplier is responsible for controlling changes and notifying Sleep Number of all changes to the approved part design, manufacturing process, or site. Suppliers shall not make changes to their processes, location, facilities, equipment, material, product design (or any change which may affect product design or function) without written approval for:

- Correction of a discrepancy on a previously submitted part
- Product modified by an engineering change to design records, specifications, or materials
- Any planned changes by the Supplier to the design, process, or manufacturing location, such as
    - Use of other material than was used in a previously approved part or product
    - Production from new, additional, replacement, or modified tools, dies, molds, patterns, etc.
    - Production following an upgrade or rearrangement of existing tooling or equipment
    - Production from tooling and equipment transferred to a different plant site or from an additional plant
    - Change of a Sub-Tier Supplier for parts, nonequivalent materials, or services (e.g. heat treating, plating, etc.)
    - Product produced after tooling has been inactive for production for 12 months or more
    - Change to test/inspection method – new technique (no effect on acceptance criteria)
    - For bulk materials: new source of raw material from new or existing Supplier, or change in product appearance attributes, etc.
    - Use of any non-conventional manufacturing methods such as electro-discharge machining, spray coatings, etc.

8.2 Nonconformance

Overview: Nonconformance applies to any product delivered to Sleep Number that has one or more characteristics that does not meet the engineering specifications.

Description: Nonconformance issues are broken into two main categories: DMR and SCAR. The Supplier shall implement and record any change as a result of the Sleep Number–issued nonconformance to any affected documentation, including any similarly affected process. If the Supplier inadvertently ships nonconforming product to Sleep Number, the Supplier shall immediately notify Sleep Number so that containment can be determined.

8.2.1 Discrepant Material Report (DMR)

The DMR is a tool used to document all occurrences of defective or damaged material identified by Sleep Number facilities. The DMR is sent to the responsible Supplier as a mechanism for the Supplier to immediately correct the discrepancy identified. Action taken by the Supplier shall be a Corrective and Preventive Action (CAPA).

Suppliers must provide an initial response to all DMRs within 24 hours of issue notification. If a response is not received within that period, the material may be shipped back to the Supplier at the Supplier's expense. DMRs will affect the Supplier's quality performance rating, expressed in defect parts per million (DPPM), when it is determined that the Supplier is responsible for the nonconformance.

8.2.2 Supplier Corrective Action Request (SCAR)

Sleep Number SCAR process utilizes the 8D methodology. When a quality event occurs, Sleep Number will issue a SCAR to the supplier. Regardless of Sleep Number's request for action, it is expected that supplier execute correction and preventive investigations internally.

SCAR's shall be completed in accordance to the following timeline:

SCAR Section	Timeline
D3 – Containment	24 hours from the date of issuance
D4 – Root Cause Analysis	7 calendar days from the date of issuance
D5 and D6 – Corrective Action	14 calendar days from the date of issuance

The Supplier shall establish and maintain documented procedures according to Sleep Number's requirement for implementing and communicating corrective and preventive actions.

In the event of potential production interruption, Sleep Number may authorize or request the following:

- Third-party containment at the Supplier's expense
- Sleep Number or third-party sort at the Supplier's expense
- Supplier-executed containment

8.2.3 Controlled Shipping Level (CSL)

Overview: Controlled Shipping Level is a process applied when a supplier has shipped non-conforming product to a Sleep Number facility. CSL requires that a supplier immediately puts in place a redundant inspection process to sort for non-conforming product, while implementing a root cause problem solving process.

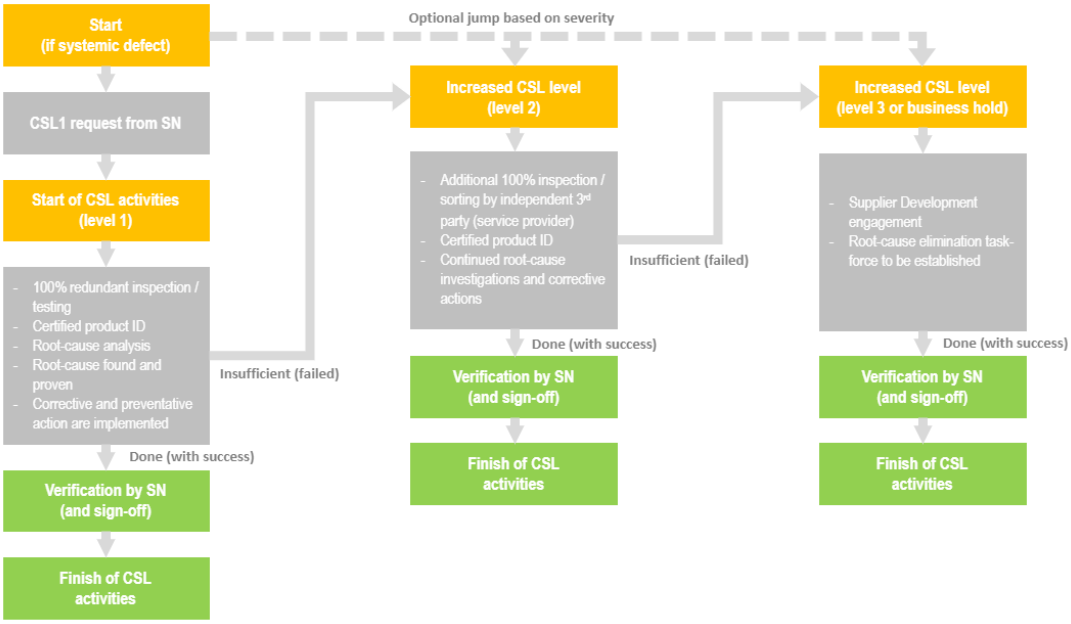
Description: The two main objectives of CSL are to contain the defective parts before they reach the customer, and to eliminate the root cause as fast as possible. The activities performed depend on the severity of the problem and will be assigned by Sleep Number. Suppliers may go through three different procedures in CSL, with the possibility of going through all three if necessary. The supplier is responsible for the cost of Controlled Shipping Level.

The following are the summaries of the three levels of Controlled Shipping Level, increasing in severity:

- CSL1 (Redundant Inspection) – Redundant 100% inspection and problem solving
- CSL2 (Independent Containment) – Involvement of a 3rd party for additional 100% inspection
- CSL3 (New Business Hold) – Supplier status is changed to new business hold and a supplier development team is initiated by Sleep Number

Diagram 1 outlines the Controlled Shipping Level process.

Diagram 1 – Controlled Shipping Level



For more information and details, refer to the Nonconformance Manual.

8.3 Supplier Scorecard

Overview: A Supplier Scorecard is an evaluation tool used to assess the performance of Suppliers. Supplier scorecards can be used to keep track of item quality, delivery and responsiveness of Suppliers across long periods of time. This data is typically used to help in purchasing decisions.

Description: A Supplier Scorecard is created for each key Supplier and periodically sent to the Supplier for their review (monthly or quarterly). Suppliers are measured using the following criteria:

- Quality –
  - DPPM (Defective Parts Per Million) = Qty Rejected / Qty Received * 1M
- Delivery –
  - % On-Time = # of Shipments Received On-Time / Total # of Shipments Received

Sleep Number will provide the supplier performance targets they need to achieve on a rolling 6-month basis in order to remain on the Qualified Supply Base (QSB). If the Supplier falls below the minimum requirements, they may be required to participate in a Supplier Development Program.

8.3.1 Supplier Development Program

The Supplier Development Program is a structured continuous improvement initiative led by Sleep Number Supplier Development and is intended to promote partnership with the Supplier in driving systemic improvements to meet Sleep Number requirements and performance expectations. The Supplier Development Program is a mechanism for and is utilized to escalate improvement actions to address systemic issues related to poor performance as identified on the Supplier Scorecard. This program may also be initiated as a result of but not limited to the following:

- Sustained poor quality and/or delivery performance
- A Supplier caused field or warranty issue
- Quality or delivery issues resulting in a manufacturing delay
- Unauthorized changes made by a Supplier
- Inadequate sustainability in correction of defective material
- CSL 2 or 3

9.0 Revision History

Rev	Description	By	Release Date	Approved By
A	Initial release. Supersedes 4011-PR-02.	J. Porter	7/8/2020	D. Scites, J. Barnum

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