

Sleep Number Supplier Business Manual (SBM)

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1. 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.



This manual defines the business practices and general guidelines expected of Suppliers who are doing business with Sleep Number Corporation (“Sleep Number” or the “Company,” including any affiliates or subsidiaries). This manual outlines requirements to ensure that Sleep Number’s supply base is providing top-level performance while following guidelines and procedures. It is the responsibility of the Supplier’s leadership to ensure compliance with 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.

1.1. Supplier Manuals`

Overview: Sleep Number governs its business and quality processes through a set of Supplier manuals that work together.

Description: Suppliers shall reference the following manuals:

- Supplier Business Manual (SBM) – outlines how Sleep Number conducts business and our expectations for Suppliers to create a strong, competitive, and value-added supply chain.
- Supplier Quality Manual (SQM) - provides an overview of Sleep Number’s standards and expectations to ensure higher quality and efficiency.

2. Scope

The content in this manual applies to

- All Suppliers providing existing and new materials, parts, assemblies, finished goods (collectively, “Part” or “Parts”) and services which directly impact the quality of Sleep Number products
- The product lifecycle, which encompasses three main areas: Supplier qualification, new production development/introduction, and production
- Business requirements and processes

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

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

- Design Record (if applicable)
- Master Supply Agreement (MSA)
- Purchase Order/Agreement
- Procurement Specifications
- Supplier Manuals (SQM, SBM)

3. General Expectations

Our Mission
To improve lives by individualizing sleep experiences

Our Purpose
To improve the health and wellbeing of society through higher quality sleep

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.



Sleep Number requires strict adherence to the letter and the spirit of all laws applicable to the conduct of its business, and demands high standards of integrity and sound ethical judgment from its Suppliers. In other words, we all have a responsibility to do the right thing:

- Right by Our Customers
- Right by the Company
- Right by Our Team Members and Suppliers

- Right by Our Shareholders
- Right by You

While the Code of Conduct for Business Partners provides general guidance to help us do the right thing, no set of guidelines can cover all situations. Each of us is responsible for reading, understanding, and complying with this Code of Conduct. For more information, visit www.sleepnumber.com/vendor.

Sleep Number will provide updates and revisions to this manual, as necessary. Suppliers are expected to incorporate these updates and revisions into their business 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.

Critical Definitions:

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

Sleep Number Suppliers shall follow the business practices and guidelines in this manual, while providing quality service and Parts.

4. Supplier Expectations and Primary Requirements

The expectations and requirements outlined in this manual apply to all Suppliers or companies that manufacture or supply Parts or provide services to Sleep Number, including the affiliates and subsidiaries of such companies. The expectations and requirements also apply to any permitted Supplier sub-contractors for which the Supplier shall be responsible for such compliance. Any Supplier who utilizes the services of sub-contractors shall identify such sub-contractors to Sleep Number prior to their engagement on Sleep Number's behalf.

Prior to awarding the contract, suppliers are assessed in the following four main capabilities:

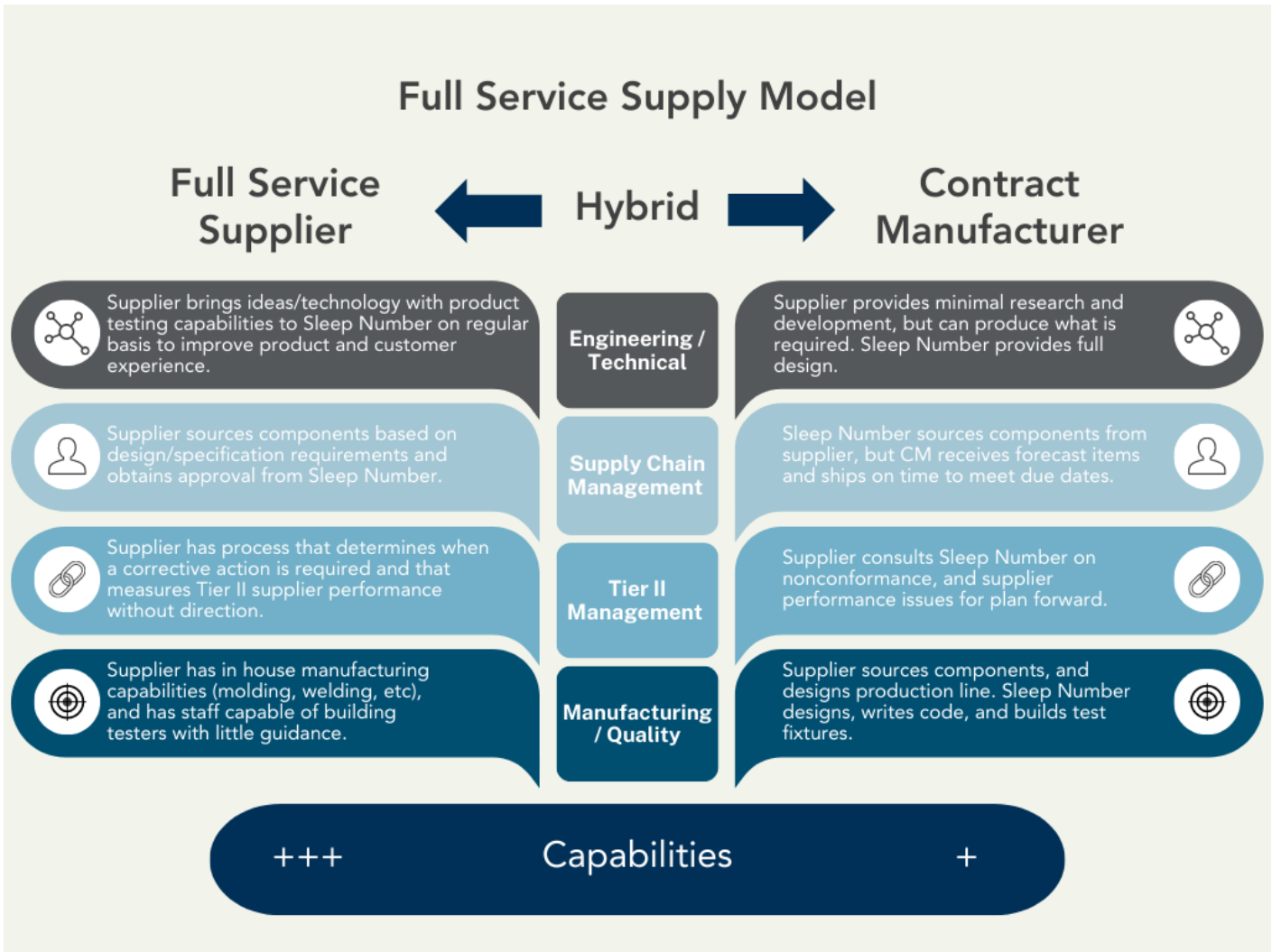
- Engineering/Technical Capability
- Supply Chain Management
- Tier II Management
- Manufacturing/Quality

The model is broken into three types of suppliers. Suppliers are selected based on alignment to product needs and requirements.

Full Service Supplier- A supplier who provides a full range of end to end capabilities including access to design, research and development, engineering, testing, supply chain management, etc.

Contract Manufacturer- A supplier who primarily provides manufacturing process development, quality, and supply chain efficiencies and relies on Sleep Number for product sourcing, design and testing.

Hybrid- Supplier has capabilities above a contract manufacturer with more collaboration and a vertical integration focus. There are varying levels of hybrid models utilized on a case-by-case basis.



For detailed explanation, see guidelines in Appendix A.

4.1. Agreements

Overview: Sleep Number utilizes several different agreements to establish the terms and conditions for conducting business, depending on the context and need.

Description: Agreements not relating to a specific product, part number, or service are signed at the beginning of the business relationship and may not have a finite expiration. Transaction agreements are specific to a product, part number, or service and are signed or accepted at the beginning of work, incorporated in the overall agreement by acceptance, and have a finite expiration (e.g., date, quantity, model year. . . etc.). The Sourcing representative responsible for the Supplier relationship will engage the Supplier in signing any required agreements prior to being awarded any business with Sleep Number.

Examples of agreements include but are not limited to:

- Master Supply Agreements (MSA) – outlines the terms and responsibilities under which a Supplier will provide Parts

- Non-Disclosure Agreements (NDA) – establishes a confidential relationship between the parties and restricts the sharing of confidential information with third parties
- Joint Development Agreements (JDA) – two or more parties work together to jointly develop a product or technology
- Professional Service Agreements (PSA) – outlines the terms under which a service provider will perform services

4.2. Supplier Communications

Overview: Effective communication is imperative for the success of Sleep Number and its Suppliers. Because of its importance, Sleep Number expects consistent communication between both parties.

Description: All communications regarding price, delivery, design, or schedules between Suppliers and Sleep Number must be confirmed through the Sleep Number sourcing representative for authorization. Suppliers are expected to follow established formal lines of communication, avoiding prohibited conduct such as seeking agreements, concessions, or information from other sources or contacts within Sleep Number, and any such efforts (such as, but not limited to, “back-door selling”). This form of prohibited conduct may result in corrective action from Sleep Number, up to and including termination of the business relationship. Communications such as supplier messages, planning schedules, purchase orders, invoices, Production Part Approval Process (PPAP) requests, and requests for information/proposal/quote, must be conducted electronically.

4.3. Business Continuity Plan

Overview: A documented plan created to handle disruptions in the supply chain. The plan should include a system of prevention and recovery to minimize the effects of the disruptions.

Description: The Business Continuity Plan should define all risks that may affect a Supplier’s operation and supply chain, and the risk management plans associated with each risk. Some risks Suppliers should include in their plan include:

- Natural Disasters (fire, flood, etc.)
- Cyber-attacks
- Virus/Illness affecting the workforce

Disruptions and threats to the supply chain could lead to significant revenue loss and increased costs, so it is in the best interest of Sleep Number and the Supplier to ensure the Business Continuity Plan is up-to-date and effective.

4.4. Trade and Product Compliance

Overview: Sleep Number is committed to ensuring that Sleep Number and its Suppliers adhere to global product compliance laws and regulations.

Description: Sleep Number personnel or agents acting on Sleep Number’s behalf, may contact Suppliers from time to time to obtain information to support a variety of Part compliance activities, including but not limited to:

- Trade compliance – all Parts entering the United States must conform to U.S. laws and regulations
- Certifications of Compliance (CoC) with applicable product regulations and product substances

- Material composition of the Parts supplied to Sleep Number (e.g., full material disclosures, including lot information for traceability)
- Processes and chemicals used in manufacturing processes
- Testing and validation methodologies and test results
- Technical details of Parts to ensure compliance with applicable laws and regulations

Suppliers are required to ensure that all Production Materials that they use in the process of manufacturing Sleep Number Parts comply with applicable Environmental Regulations. Suppliers are required to provide a timely, accurate, and thorough response, and, if requested, to provide timely and accurate written certifications of their responses to Sleep Number's product compliance information requests. Without the requested information, production or shipments may be delayed, products may be banned or seized, and Sleep Number's ability to comply with product compliance laws and regulations may be put at risk. Invoice payments may be delayed or denied by Sleep Number if requested product compliance information is not provided in a timely manner.

4.5. Conflict Minerals

In 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Act), including Section 1502, which is commonly referred to as the Conflict Minerals rule and which took effect on January 1, 2013. The law requires publicly-traded companies who use gold, tantalum, tin, and tungsten minerals (known as 3TG) in products manufactured or contracted to be manufactured by such companies to report annually to the Securities and Exchange Commission whether the 3TG used in their products originates from the Democratic Republic of Congo (DRC) or a neighboring country, where armed groups exploit the mining and trade of 3TG to help finance conflict in the region.

Consistent with our Human Rights policy, we fully support Section 1502 of the Act.

As described in our Conflict Minerals Rule Policy, Sleep Number does not directly source 3TG from mines, smelters, or refiners. As a result, we have clearly communicated our expectations to Suppliers who provide materials or Parts to Sleep Number that may contain 3TG. We rely on them to:

- source their materials from ethically and socially responsible sub-tier suppliers and to apply a nationally or internationally recognized due diligence framework within their supply chains to determine the origin of the 3TG they use,
- annually certify whether the materials or Parts they provide to Sleep Number contain conflict minerals, and if so,
- provide written documentation of their due diligence efforts and the source of each mineral.

To comply with our annual reporting requirement under the Act, Sleep Number conducts an annual reasonable country of origin inquiry to determine if any 3TG necessary to the functionality and production of Sleep Number products may have originated in the DRC or neighboring countries. We survey all active Suppliers about the presence of 3TG in their materials, carefully review their responses and follow up to obtain additional information or clarification about the content and origin of their materials, as necessary. Suppliers agree to annually certify whether any products, Parts, components, or ingredients supplied to Sleep Number contain conflict minerals and if so, identify the source of the minerals with written documentation of the due diligence steps taken in making the determination.



5. Procurement/Planning Expectations

Sleep Number utilizes a rigorous sourcing process to ensure Suppliers who are selected can provide best-in-class quality, delivery, cost, and technology.

We expect all Suppliers to provide economic benefit to Sleep Number’s supply chain and understand Sleep Number’s customer needs. In addition, Sleep Number seeks a mutually beneficial relationship with all its Suppliers characterized by:

- A joint commitment to information exchange, planning, continuous improvement, and cost reduction
- Agreed-upon measures of key performance factors that are met
- The sharing of risk to achieve mutual benefits
- The Supplier maintaining a leadership position in technology, service, quality, and cost
- The Supplier being actively involved in Sleep Number’s new product design and development
- The willingness of the Supplier to enter into a contractual agreement that clearly demonstrates their complete responsibility for their product
- The execution of Sleep Number’s Master Supply Agreement or Purchase Order

Sleep Number’s customers demand that it stay ahead of the competition with better quality, leadership in design and technology, and strive for perfect delivery. An absolute requirement is the delivery of 100% complete, correct, and on-time Parts and services that meet or exceed expectations. Strong supply-chain communication will help to create a win-win-win relationship between our Suppliers, Sleep Number, and our customers.

5.1. Supplier Selection Requirements

Overview: To be considered as a Sleep Number Supplier, Sleep Number applies a thorough qualification process that evaluates Suppliers’ capability to meet the business requirements.

Description: Potential new Suppliers will be evaluated on their capability to meet Sleep Number’s requirements in quality, delivery, cost, technology, and capacity. Sleep Number Supplier selection is based on the following items:

- Completion of a “Supplier Self-Assessment” form which is then submitted to Sleep Number for review
- The potential Supplier’s financial assessment
- A Supplier’s experience and capability to meet the needed processes to maintain a strong supply chain
- Evaluation of the Supplier’s factory conditions, technical / innovation capabilities, quality systems, environmental and sustainability programs, and continuous improvement
- Communication and ease of doing business

- The demonstrated ability of the potential Supplier to be cost competitive and to consistently deliver products on time to its customers
- Evaluation of production capacity to meet Sleep Number's forecast/demand

Sleep Number expects Suppliers to have a capacity plan that will meet or exceed our demand plan by 20% and the plan will be reviewed quarterly. Suppliers shall provide Sleep Number with detailed information on current and anticipated production capacity relative to the Parts. In the event that Supplier's production capacity is materially altered for any reason including, but not limited to:

- Raw material shortage
- Damage to or destruction of manufacturing tooling
- Machinery or facilities
- Labor shortage or work stoppage

Supplier shall promptly notify Sleep Number of such impact.

5.2. Purchase Orders / Releases / Communication of Releases

Overview: Sleep Number may, from time to time, issue one or more purchase orders requesting a specific quantity of Parts to be delivered to specific locations on or by specific delivery dates. Sleep Number may also create blanket purchase orders for the purchase of a quantity of Parts which are intended to be delivered in phases over time. Sleep Number may issue releases against blanket purchase orders specifying any Parts delivery quantity, specific delivery locations, or specific delivery dates. We support two electronic methods of sending and receiving data and require Suppliers to select one option: (1) Electronic Data Interchange (EDI); or (2) Active Orders (AO).

Description: EDI is our preferred method; however, AO is acceptable. Sleep Number believes this capability brings efficiencies and continued partnership between both companies, and the companies can jointly benefit through improved data quality and enhanced speed and flexibility.

EDI: The primary benefit of EDI is the ability to integrate Sleep Number purchase order data directly into the Supplier's system, with no manual intervention. Sleep Number transmissions follow the ANSI X12 standard. Sleep Number sends and receives secure EDI transmissions through a Value-Added Network (VAN).

AO: The second option of transacting documents with Sleep Number is via AO. AO is a 3rd party web-based EDI portal that facilitates transactions if Supplier does not have ANSI X12 EDI capabilities. Supplier uses the AO portal to:

- Receive purchase order releases
- Create Advanced Shipping Notices (ASN's)
- Create shipping labels
- Create invoices

To initiate setup, the Supplier shall request access through the Sleep Number Sourcing team.

5.3. Forecasting

Overview: Sleep Number uses a 12-month rolling forecast to calculate the demand for the upcoming time periods, unless otherwise agreed upon.

Description: The forecast uses a Sales, Inventory, and Operations Plan (SIOP) approach to ensure coordination among all needed departments and will be updated on a monthly basis by the 4th week of the month. The forecast components include current inventory, purchase orders, and planned orders for a rolling 12-months. Suppliers are expected to update their systems and meet the demand needed for Sleep Number. Sleep Number makes the effort to provide the most accurate forecast in a timely manner. The forecast is not an obligation to purchase Parts, but a best attempt to enable Suppliers to manage their production capacity.

5.4. Traceability

Overview: Sleep Number requires Suppliers to have the capability to trace all Parts/components up to full traceability of raw materials to production, consumption, and disposal.

Description: The Parts shall be manufactured, packaged, shipped, and delivered in a manner so as to permit traceability to lot, batch, factory, and source of origin materials for each of the Parts and each component that makes up a Part. Further, Supplier specifically represents and warrants that the Parts and any component, ingredient, or material used to manufacture the Part will be traceable as may be required by law, rule, or regulation.

5.5. Transportation Management

Overview: Sleep Number expects consistent packaging, labeling, shipping, and delivery to Sleep Number locations and adherence to Sleep Number transportation requirements. This will ensure:

- Quality Parts free of damage
- Efficient and accurate receipt of Parts / proper invoicing
- Efficient utilization of shipping methods

Description: Sleep Number and Suppliers work closely together to determine most effective and efficient methods of transportation. Whether it is Sleep Number or Supplier arranging for transportation, it is the Supplier's responsibility to ensure:

- Product is packaged in a manner to ensure it arrives to the final destination without damage
- Proper loading
- Accurate packaging data / labeling / Bill of Lading
- Complete and accurate packing list
- Compliance to all applicable laws, regulations, and standards pertaining to packaging and materials

5.6. Tooling Requirements

Overview: Suppliers shall have a process and system established to maintain Supplier or Sleep Number owned tooling. The process or system shall comply with Sleep Number's expectations.

Description: Any projects requiring custom tooling, dedicated for Sleep Number usage, shall adhere to the following guidelines:

- Quote shall originate from a Sleep Number supplied tooling quote request and should be consistent with the tooling grade and type as specified

- All tooling will be maintained, appropriately stored, and identified with the following information:
 - Sleep Number Company Name, Part Number, Commissioned Date.
- Tool life shall be tracked, and information made available within one (1) business day upon request.
- All new tools or modifications shall be submitted and approved by Sleep Number prior to making the change(s).



5.7. Quality Audits / Testing

Overview: An essential management tool for verifying objective evidence of processes to assess the effectiveness of achieving defined target levels. This includes quality inspections, internal audits, and analytical testing.

5.7.1. Quality Inspection

Upon reasonable notice, during normal working hours and without undue interruption to Supplier’s business, Suppliers shall allow Sleep Number to carry out quality audits and to inspect, observe, and sample:

- All finished Parts, related raw materials, or work-in-process
- Machinery, equipment, and production processes

No such audit or inspection will release Supplier from any of its obligations under any applicable agreement or this manual.

5.7.2. Self-Audit

Supplier agrees to undertake a self-audit at least once per calendar year to ensure:

- Supplier complies with the terms of any agreement with Sleep Number
- the Parts continue to meet the required specifications
- compliance with all applicable laws, rules, and regulations applicable to the Parts or their manufacture, delivery, distribution, or sale.

Upon request, Supplier will share the results of such annual audit with Sleep Number. The results of such audit shall be considered confidential.

5.7.3. Analytical Testing

From time to time, Sleep Number reserves the right to undertake quantitative, qualitative, or analytical testing of Parts to measure materials and/or components to verify whether the Parts comply with:

- any applicable laws, rules, or regulations

- the terms of any agreement governing the supply of Parts including, without limitation, the specifications for the Parts.

Upon Sleep Number’s request, Supplier shall provide copies of any test results, Safety Data Sheets, or any other documentation requested by Sleep Number which would demonstrate such compliance.

5.8. Right to Audit

Overview: Sleep Number shall have the right to audit Supplier’s facilities and books and records which relate to the Parts they provide to Sleep Number.

Description: Sleep Number may exercise the audit rights up to four times in any one (1) calendar year period. If Supplier is not in compliance with any terms of the agreement for the supply of Parts and Sleep Number determines or finds evidence of, such noncompliance through the exercise of Sleep Number audit rights, Supplier shall pay all of Sleep Number’s costs and expenses, including reasonable professional fees and expenses associated with Sleep Number’s exercise of Sleep Number’s audit rights. Sleep Number must provide three (3) calendar day’s prior written notice of its intent to exercise Sleep Number’s audit rights. In connection with Sleep Number’s audit rights, Sleep Number shall have access to all areas of Supplier’s facilities used in the supply of any Parts, Supplier’s employees and agents involved in providing the Parts, and all of Supplier’s books and records substantiating Supplier’s compliance with its obligations under any agreement with Sleep Number. No such audit or inspection will serve, operate, or otherwise be construed as a release of Supplier from its obligations under any agreement or this manual.

6. Supplier Performance

Overview: Sleep Number uses a performance scorecard to provide timely feedback. Based on this performance, Suppliers remain in the Qualified Supply Base (QSB).

Description: The scorecard implemented by Sleep Number will include the following Supplier performance metrics: quality performance (measured in Defective Parts Per Million) and On-Time Delivery. The scores of Defective Parts Per Million and On-Time Delivery are weighted equally. Sleep Number will provide a percentage that represents the Supplier’s overall score, indicating whether they are in the Qualified Supply Base. Below are the range of percentages along with the possible strategic actions taken for each:

Overall Score (subject to change)	Action(s) Required (subject to change)
81%-100%	Performance consistent with Sleep Number expectations. Supplier is in the qualified supply base. Focus shall remain on continuous improvement to maintain status in qualified supply base.
70%-80%	One or more areas not consistent with Sleep Number standards. Supplier removed from qualified supply base. CAPA required within 60 days to improve performance.
<70%	Performance not consistent with Sleep Number standards. Corrective actions expected within 30 days.

Suppliers that do not meet our minimum QSB targets are required to provide root cause and corrective actions to elevate their performance back into the QSB.

Any disputes must be communicated to a Sleep Number Sourcing or Supplier Quality representative via email within 7 to 10 business days from the time of receipt of the scorecard.

6.1. Defective Parts Per Million (DPPM)

Overview: DPPM is a measurement used by Sleep Number to measure quality performance. DPPM is calculated by dividing the total Parts rejected (within the rating period) by the total Parts received (within the same period) and multiplying by 1,000,000.

Description: Suppliers are expected to meet a target DPPM given to them by Sleep Number. Suppliers will be evaluated based on their actual DPPM in comparison to their target DPPM. The DPPM target will be dependent on a variety of factors determined by Sleep Number. Some may include but are not limited to:

- Previous Supplier performance
- Part category goals
- Enterprise goals

Sleep Number will communicate annual targets in Q1 of each fiscal year. Feedback will be given to each Supplier on a minimum quarterly basis. If Suppliers are unable to meet Sleep Number's expectations, affirmative steps to improve DPPM are expected to be taken.

6.2. On-Time Delivery

Overview: Supplier's quality performance is also measured by On-Time Delivery. To measure On-Time Delivery, the total shipments received on-time will be divided by the total shipments received, then multiplied by 100 to convert to a percentage.

Description: Sleep Number expects Suppliers to consistently improve On-Time Delivery and to strive for 100% On-Time Delivery. The Sleep Number standards of On-Time Delivery are:

- On-Time - delivered up to 3 days prior to the due date, and where applicable, at or before the specified time on the due date
- Early – 3 business days before the purchase order release due date
- Late – 0 or more business days after the purchase order release due date

Please note the On-Time Delivery is based on total shipments and not line items. For example, 1-line item with 10 shipments will count as 10 receipts.

6.3. Qualified Supply Base (QSB)

Overview: QSB is a holistic scorecard used to evaluate the Supplier performance and identify areas of improvement. The score is used as an input in awarding future business.

Description: QSB is a combination of quality and delivery metrics based on the last three months of performance. For each metric, the scoring outputs a "qualified" or "not qualified" status. The status is an input for sourcing decisions. Not qualified status in QSB indicates that multiple performance metrics are

below the minimum threshold. As part of the non-qualified status, the Supplier is placed on a new business hold. The minimum threshold may change to adapt to changing Sleep Number requirements.

7. Recovery Fees & Cost Recovery

Overview: The cost recovery process allows Sleep Number to recover expenses incurred from a nonconformance event.

Description: A nonconformance event triggers the recovery process when costs or expenses are incurred by Sleep Number which are a result of a defect found in the Parts provided by a Supplier or Supplier's failure to timely deliver Parts. The Supplier Nonconformance Cost Recovery procedure applies to all Suppliers of Parts to Sleep Number. Cost recovery method, timing, communication, and reporting will be handled by Sourcing and/or Finance. See below for details:

Cost Recovery Table

<p>Administrative Fee \$250 per Nonconformance Report (NCR)</p>	<p>Occurrence cost of issuing an NCR at a Sleep Number production facility or assembly distribution center.</p>
<p>Production Down Time \$50/hour/person</p>	<p>Production Down Time charges are assessed to account for lost production labor when the production line is interrupted due to rejects, shortages, late deliveries, and the like. The fee assessed will be equal to the total production labor hours lost and may be in addition to any lost production charges.</p>
<p>Delayed or Rescheduled Production \$1,000 per event</p>	<p>Delayed or Rescheduled Production charges are assessed when production schedules will be delayed or reschedule is required due to the nonconformance event including (but not limited to) the receipt of defective material, late deliveries, or shortages.</p>
<p>Expedited/Extra Shipments Actual cost of Expedited Freight Charge</p>	<p>In the event of expedited freight/extra shipments due to Supplier driven nonconformance event, Suppliers will be charged the actual cost of the shipments. These costs may include but are not limited to:</p> <ul style="list-style-type: none"> • Expedited freight value (example: air vs ground) • Unused/partial truck charges (example: Less than Truckload) • Extra stop charges • Extra or multiple truck charges <p>Additionally, Suppliers may be charged as a part of total cost recovery for the following:</p> <ul style="list-style-type: none"> • Production down time • Production reschedules • Lost production
<p>U.S. Customs Penalties \$500 plus actual cost incurred and value of lost product</p>	<p>Sleep Number is subject to fines, penalties or excess duties from the U.S. Customs and Border Protection and possible loss of product for the improper importation of product into the United States. U.S. Customs</p>

	penalty charges are assessed when any additional cost or loss is caused by a Supplier nonconformance event. These charges may be in addition to other charges such as production down time, lost or delayed production or planned production reschedules and will include the actual cost of any product losses.
Event Resolution Travel Recovery \$500/day/person plus actual travel expenses	Event Resolution Travel Recovery charges are assessed if a Supplier nonconformance event results in the need to send Sleep Number personnel to a Supplier's facility for the purposes of resolving the nonconformance event.
Service Bulletins \$5000 per instance plus actual cost incurred	If a service bulletin is required to be sent to customer/home delivery for service or replacement of defective supplier material already in the field, suppliers may be debited for all costs, direct or indirect, associated with analyzing and correcting these problems including the cost of distributing bulletins, shipping, replacement Parts, and customer/home delivery.
Supplier Corrective Action Request (SCAR) Single Occurrence: \$250 per request Repeat Occurrence (same defect): \$1,000 per request plus audit costs	Supplier Corrective Action Requests (SCAR) charges are assessed in the event of nonconforming Parts or materials are received by Sleep Number/consumer per the Sleep Number Supplier Nonconformance Manual. If the initial SCAR is not effective and results in a repeated failure/defect, the Supplier will be assessed the repeat occurrence charge.
Rejected Parts – Disposal/Return Rejected Parts Not Returned to Supplier: NCR Administrative charge plus actual cost of disposal Rejected Parts Returned to Supplier: NCR Administrative charge plus actual cost of return shipment	Rejected Part – Disposal/Return charges are assessed when a Supplier's nonconformance results in the accumulation of rejected Parts that must be disposed of by Sleep Number. The charges assessed differ depending on whether Supplier requests that rejected Parts be returned to it.
Sleep Number Sorting Expense – Labor \$50/person/hour	Labor charges are assessed if Sleep Number personnel are used to sort or screen any of the nonconforming Parts.
Scrapped Parts (1.5 x standard cost per unit) plus actual cost of disposal	Scrapped Parts charges are assessed if Sleep Number must scrap Parts due to nonconforming components or materials identified after production and cannot be reworked.

<p>Non-Compliance with Certificate of Compliance/Analysis \$3,000 per shipment plus cost of any analysis necessary to validate the Certificate of Compliance (e.g. lab testing, etc.)</p>	<p>Charges for non-compliance with a Certificate of Compliance/Analysis are assessed when the Parts delivered by the Supplier are accompanied by a Certificate of Compliance/Analysis that inaccurately represents the Part.</p>
<p>Undocumented Supplier Process or Product Change \$3,000 per shipment plus sorting charges</p>	<p>If any product is rejected due to unauthorized Supplier changes of process or product to produce Parts without prior Sleep Number approval.</p>
<p>Rework Production Facility: \$50/person/hour Customer Install: \$250/occurrence Delivery Reschedule/Return to Customer Home: \$500/occurrence or base plus any reasonable customer appeasement costs</p>	<p>Rework charges are assessed if Sleep Number must rework products due to nonconforming Parts or materials identified after production start and the materials can be reworked by Sleep Number personnel.</p>

8. Definitions

Term	Definitions
AO	Active Orders - A 3rd party web-based EDI portal that facilitates transactions if Supplier does not have ANSI X12 EDI capabilities
CAPA	Corrective and Preventive Action
CoC	Certifications of Compliance
DPPM	Defective Parts Per Million
EDI	Electronic Data Interchange
Environmental Regulations	Applicable environmental standards including, but not limited to, the European Union’s Directive 2011/65/EU, Restrictions on Hazardous Substances (“RoHS”), California’s Safe Drinking Water and Toxic Enforcement Act of 1986 (i.e., Proposition 65), and similar law, rules or regulations that may be adopted by other countries or states.
NCR	Nonconformance Report
PPAP	Production Part Approval Process

Production Materials	Materials that are consumed in the production processes to manufacture Parts including without limitation, solder, epoxy, cleaner solvent, labels, flux, and glue; Production Materials do not include any such production materials that have been specified or provided by Sleep Number or are from vendors with whom Sleep Number has a commercial relationship.
QSB	Qualified Supply Base
SBM	Supplier Business Manual
SIOP	Sales, Inventory, and Operations Plan
SQM	Supplier Quality Manual
VAN	Value-Added Network

9. Record Retention

Supplier agrees to keep and maintain accurate and detailed records of all matters respecting the production and sale of Parts to Sleep Number in accordance with generally accepted accounting and manufacturing procedures and in compliance with any applicable law, rule, or regulation. Further, Supplier represents and warrants that it will retain required records on the Parts and the materials and components used to manufacture the Parts for the longer of a) any period required by law, rule or regulation; or b) ten (10) years.

Supplier agrees to maintain information regarding the Parts and the manufacture of the Parts such that Supplier can, within forty-eight (48) hours of Supplier's receipt of one of the following:

- Part's bar code
- Date code
- Serial number

provide Sleep Number with a complete documentation package. This package identifies material traceability from receipt of raw materials through production and delivery of the Part including all test and inspection data as defined in the specifications or as otherwise required to be maintained by law, rule, or regulation.

10. Revision History

Rev	Description	By	Release Date	Approved By
A	Initial release.	B. St. Dennis	7/10/20	D. Scites, T. Wixo
1.0	Sec 3.0 edited to the current mission and purpose Sec 4.0 Added Full Service Supply Model and graphic with overview and description Sec 4.0 added description definitions Added Appendix A	N. Thoms	8/22/2023	M. Martin, D. Scites, T. Wixo

11. Appendix A

Category	Subject	Full Service Supplier	Hybrid	Contract Manufacturer
Engineering/ Technical Capabilities	Product Design	Full design capabilities	Sleep Number design/supplier reviews for 'design for manufacturing'	No design capabilities
	Component / Bill of Materials Selection	Supplier sourced components	Sleep Number sourced critical components / Supplier sourced remaining	Sleep Number sourced components
	Research and Development	Supplier consistently offers latest and greatest product / process technology	Supplier is expert on process, and follows industry product trends	Supplier is expert on process / not product
	Product Development Testing	Full testing capability on site or at qualified 3 rd party	Supplier has a process to manage testing and certifications	No development testing capabilities / Sleep Number directed test labs
Supply Chain Management	Scheduling / Supermarket	Build to supermarket based on forecast/little guidance from Sleep Number	Supplier plans capacity based on Sleep Number forecasts	Build to order/limited to no inventory
	Logistics	Translates our purchase orders into optimized truckloads/container shipments	Supplier has an established 'Plan for every part'	Sleep Number builds truck / trailers quantities
	First in First Out (FIFO)	Visual or systematic FIFO for supermarkets	Visual or systematic FIFO if product is stocked	Visual or systematic FIFO- if product is stocked
	Tier II Supplier Selection	Supplier has ability to select component suppliers	Supplier has qualified network of suppliers	Sleep Number directed suppliers
	Material Management	Active Tier II material requirements planning / execution (demand planning, forecasting, etc.)	Active Tier II material requirements planning / execution (demand planning, forecasting, etc)	Active Tier II material requirements planning/execution (demand, planning, forecasting, etc.)
Component Supplier Relationship	Strategic relationship with component suppliers	Supplier has qualified network of suppliers	Transactional based relationship with component suppliers (tactical)	
Tier II Management	Supplier Qualification	Supplier qualifies tier II suppliers	Collaboration between Sleep Number and supplier	Sleep Number qualifies Tier II Suppliers
	Component Production Part Approval Process (PPAP)	Supplier led component level PPAPs/submitted to Sleep Number	Collaboration between Sleep Number and supplier	Sleep Number led component level PPAPs
	Nonconformance Report (NCR)/ Corrective action and Preventive action (CAPA)	Supplier led CAPAs	Collaboration between Sleep Number and supplier	Sleep Number led CAPAs with directed suppliers
	Performance Management	Supplier led Tier II supplier development activities	Collaboration between Sleep Number and supplier	Sleep Number led Tier II supplier development activities
Manufacturing / Quality	Process Design	Manufacturing engineering staff led process design	Manufacturing engineering staff led process design	Manufacturing Engineering staff led process design
	Data Collection	Key production data collected and analyzed / reaction plans in place	Key production data collected and analyzed / reaction plans in place	Key production data collected and analyzed / reaction plans in place
	Functional Testing/Inspection	Sleep Number designed / Supplier built test fixtures	Sleep Number defined test requirements with supplier input on design	Sleep Number designed and built test fixtures
	Vertically Integrated	In house manufacturing capabilities (molding, welding, etc.)	Focused on vertical integration	No vertical integration- sources all components
	Quality System Approach	Corporate driven-centralized quality system deployed- each plant operates to corporate driven quality	Supplier has centralized processes, but not integrated systems	Customer driven- each plant operates autonomously
	Production System	Centralized / common production system	Information is shared systematically across different production systems	Each plant operates autonomously
	Information Sharing	Supplier provides Sleep Number required information as needed via approved technology	Supplier provides Sleep Number required information as needed via approved technology	Supplier provides Sleep Number required information as needed via approved technology

Document Approvals
Approved Date: 9/11/2023

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