

December 15, 2010

FASB Technical Director Financial Accounting Standards Board 401 Merritt 7 Post Office Box 5116 Norwalk, Connecticut 06856-5116

Dear Sir/Madam:

Thank you for the opportunity to comment on the proposed Accounting Standards Update on Leases - Topic 840. We support the Financial Accounting Standards Board's objectives to improve lease accounting, enhance financial statement users' understanding of leasing transactions and facilitate better economic decision making.

Select Comfort is a mid-size publicly traded company with fiscal 2009 net sales of \$544 million. We design, manufacture, market and support a line of adjustable-firmness mattresses, branded the Sleep Number® bed, as well as foundations and bedding collection accessories. Our products are sold through approximately 400 stores located across the United States; select bedding retailers; direct marketing operations; and online at www.sleepnumber.com.

We lease all of our retail store locations, manufacturing facilities and corporate offices. Our store leases typically provide for an initial lease term of five to seven years with a mutual termination option if we do not achieve certain minimum annual sales thresholds. Generally, our 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. Our aggregate minimum rental commitments under operating leases and future maturities of capital leases totaled approximately \$135 million at the end of 2009.

We believe it is a "given" that it will be expensive and operationally challenging for companies to effectively implement the proposed Accounting Standards Update. However, assuming these are "givens," our primary comments on the proposed Accounting Standards Update relate to (1) the requirement to reassess the expected amount of contingent lease payments at each reporting period when there is an indication that the change in payments could be significant and (2) the reporting unit level of the reassessment. In developing our comments, we considered the Board's views that reassessment will provide more relevant information to users because it would reflect current economic conditions.

As background information - For retail companies with leased store locations, contingent lease payments are often based on sales performance. Over the last six years we have experienced annual total company comparable store sales changes of 16%, 15%, 7%, (11%), (25%) and 0%, with a significant component of the variability attributable to the macroeconomic environment. Comparable store sales changes can be even more volatile at a store level and for quarterly reporting periods. Our concern with the requirement to perform a reassessment only if there is a "significant change" is the frequency that changes resulting from the macroeconomic environment or individual store sales volatility could be deemed significant. We believe the uncertainty regarding the determination of when a change is significant, the cost of performing a reassessment

on a quarterly reporting basis when significant, the challenge of projecting items that are essentially uncertain and the likely financial statement fluctuations would outweigh the benefits (more relevant information) of frequent reassessments. The forecasting challenge is supported by paragraph BC131of the proposed Accounting Standard, which states "in the boards' view the usefulness of the additional information obtained using such a forecast would not justify the cost of obtaining it." This is especially true when the reassessment is based on forecasting future sales and contingent lease payments at a store level.

We understand other comment letters' perspectives regarding the exclusion of contingent rentals in the valuation of right-of-use leased assets. We also struggle with the logic that asset values and debt levels should fluctuate based on changes in percentage rent forecasts driven by changes in current sales performance. We believe excluding contingent rentals could be a reasonable approach if companies ensured the value of their right-of-use leased assets reflected the fair value of market rents, understanding the difficulty in obtaining fair market value rental rates. As an alternative, we propose the following which we expect would somewhat alleviate the administrative burden of complying with the proposed standard, while still providing relevant information to financial statement users:

- Each reporting period, recognize in profit or loss the impact of differences in actual contingent lease payments versus expected payments related to current or prior periods
- Annually reassess changes in future lease payments, including expected contingent rentals.
 Reassessment of future lease payments could be subject to a triggering event or based on materiality, and performed in conjunction with a company's annual planning and budgeting process.
 Materiality could dictate the necessity of reflecting any change in a company's financial statements
- Provide companies with the flexibility to apply assumptions such as projected sales increases at a
 level above the reporting unit. As an example, projecting future sales increases for a group of stores
 would reduce the administrative burden versus individual calculations for each store, and likely not
 impact the accuracy of the overall analysis
- Consistent with the proposal, reflect reassessments related to significant changes in lease terms in the reporting period they occur. We believe that we can reasonably address significant changes in lease terms

Finally, like many companies, asset impairment testing is one of our critical accounting policies. Impairment testing of right-of-use assets will be complex, highly judgmental and require management to make estimates about future events, which is an inherently imprecise activity. We would appreciate further guidance on the impairment testing process for right-of-use assets, particularly as of the date of initial application when applying the simplified retrospective approach. Below are some of the questions we believe will need to be addressed:

- Should right-of-use asset impairment testing assumptions be consistent with the initial assumptions made at prior period balance sheet dates when we tested other long-term assets of the reporting unit for impairment or should the impairment testing reflect actual data of the now completed periods?
- If asset impairments were recorded at the reporting unit level (in our situation a store) in a comparative reporting period, should the reporting unit's right-of-use asset impairments be recorded in that same reporting period?
- Our incremental borrowing rate has fluctuated significantly over the last three years. Should the discount rate used in impairment testing align with the discount rate used to initially recognize the right-of-use asset?
- If partial asset impairments had been recorded in comparable reporting periods, how should the partial impairments be considered when adding a right-of-use asset?

We are very interested in your future consultation documents that will further discuss implementation issues, the effective dates and transition methods of the proposed Lease Standard. We appreciate your plan to provide financial preparers with adequate time to implement the final Lease Standard as the Board noted in paragraph BC185 of the proposal. We trust you will carefully consider the impact that your decisions will have on companies of our size as you finalize this project and other Board projects, including international convergence of accounting standards. Effectively implementing the proposed Lease Standard and other Board projects will require a great deal of planning, new systems and additional resources.

Thank you for your consideration of our comments. If you would like to further discuss our comments or have any questions, please contact me at (763) 551-6126.

Regards,

BOB POIRIER | VP & CHIEF ACCOUNTING OFFICER
My SLEEP NUMBER® setting is 50. What's yours?
P 763.551.6126
robert.poirier@selectcomfort.com

SELECT COMFORT CORPORATION

9800 59th Avenue North, Minneapolis, MN 55442