

985974 AUG 11, 2006 ACT UT LTR #PK 1
 SERVICE 109 BILL UT LTR
 TRACKING# 129859740150014268 ALL CURRENCY USD
 REF 1 :
 REF 2 :
 HANDLING CHARGE 0.00
 REFERENCE RATE CHARGES:
 DV 0.00 COD 0.00 SERVICE 22.39 USD
 DC 0.00 HZNT 0.00 RS 0.00
 AH 0.00 NTFY 0.00 SD 0.00
 TOT REF CHG 22.39 REF-HANDLING 22.39

PARTIES:

Select Comfort Corporation
 6105 Trenton Lane North
 Plymouth, MN 55442 (“SCC”)

American National Manufacturing, Inc.
 252 Mariah Circle
 Corona, CA 92879-1751 (“ANM”)

Craig Miller
 Vice President – American National Manufacturing, Inc.
 252 Mariah Circle
 Corona, CA 92879-1751 (“Consultant”)

DATE: August 11, 2006

AGREEMENT:

The parties hereto, each intending to be legally bound, agree as follows:

1. Engagement. Subject to all of the terms and conditions of this Agreement, SCC hereby engages ANM and Consultant to perform consulting services as provided herein and each of ANM and Consultant accepts such engagement. ANM and Consultant shall serve SCC as independent contractors and neither Consultant nor any other employee of ANM shall be an employee of SCC.
2. Duties. Consultant agrees to devote up to 20 hours per month to the provision of consulting services hereunder on matters related to Consultant’s professional qualifications and industry experience as requested by SCC's management. Specific expertise is anticipated in the areas of product research and development and low-cost country sourcing. Consultant shall be accountable to the President and CEO of SCC, and will work closely with members of the management team in Research and Development and Global Supply Chain. ANM consents to the engagement of Consultant under the terms of this Agreement and agrees to make both Consultant and the related resources of ANM available to provide the consulting services contemplated by this Agreement.
3. Initial Term, Renewal Periods, Termination and Effect of Termination.
 - (a) Initial Term. Subject to earlier termination in accordance with paragraph (c) below, the term of ANM’s and Consultant’s services under this Agreement shall commence on approximately August 1, 2006 and will continue for an initial term of three (3) years expiring August 1, 2009 (the “Initial Term”).
 - (b) Automatic Renewal Periods. After the Initial Term, this Agreement shall be automatically renewed for successive, separate renewal periods of one (1) year each (each of which is referred to herein as a “Renewal Period”) unless either party provides notice of its intention not to renew this Agreement at least ninety (90) days in advance of the expiration of the Initial Term or any Renewal Term.

(c) Termination. Notwithstanding the foregoing, this Agreement will be subject to termination in the sole discretion of SCC for any reason or for no reason, effective upon not less than ninety (90) days prior written notice of termination from SCC to ANM and Consultant.

(d) Effect of Termination. The termination of this Agreement, whether pursuant to the expiration of the Initial Term or any Renewal Period, or pursuant to termination in accordance with paragraph 3(c) above, shall not affect or impair any remaining obligations of the parties under this Agreement, including any remaining payment obligations arising with respect to performance under this Agreement prior to the termination of this Agreement and the continuing obligations of SCC, ANM or Consultant under Sections 5, 6 and 7 hereof.

4. Compensation. In consideration of ANM's and Consultant's services under this Agreement:

(a) Cash Compensation. SCC shall pay Consultant annual cash compensation of Three Hundred Fifty Thousand Dollars (\$350,000) during the first year of the Initial Term, Four Hundred Thousand Dollars (\$400,000) during the second year of the Initial Term, and Five Hundred Thousand Dollars (\$500,000) during the third year of the Initial Term and during any applicable annual Renewal Period. Such compensation shall be payable in quarterly installments on the first day of August, November, February and May of each year.

(b) Expenses. SCC agrees to pay directly or reimburse ANM or Consultant for all usual, reasonable and necessary travel expenses paid or incurred by ANM or Consultant in performing services hereunder, provided that such travel expenses shall be incurred and documented in accordance with all applicable SCC policies and ANM or Consultant shall have submitted all receipts and other documentation required by such policies. ANM will provide prototypes and samples to SCC when required and approved by SCC at a \$35.00 per hour shop rate plus materials. All materials will be billed at ANM's actual material cost plus a mark-up on material cost of 10%.

(c) Post-Termination Cash Compensation. Following the termination of this Agreement, whether after the Initial Term or any applicable Renewal Term or pursuant to Section 3(c) above, in consideration of ANM's and Consultant's obligations under Sections 5, 6 and 7 hereof and so long as ANM and Consultant continue to comply with Sections 5, 6 and 7 hereof, and in lieu of any further compensation under Section 4(a) above, SCC shall pay ANM total cash compensation of One Hundred Fifty Thousand Dollars (\$150,000) payable in equal quarterly installments consistent with the schedule specified in Section 4(a) above over the period contemplated by the first paragraph of Section 7 below.

(d) Taxes. ANM and Consultant will be responsible for all taxes payable by ANM or Consultant in connection with any compensation or other payments received by ANM or Consultant under this Agreement.

5. Inventions.

(a) Definition. The term "Inventions," as used in this Section 5, means any inventions, discoveries, improvements and ideas (whether or not they are in writing or reduced to practice) or works of authorship (whether or not they can be patented or copyrighted) that ANM or Consultant makes, authors, or conceives (either alone or with others) and that:

- (i) Concern directly SCC's consumer adjustable firmness mattress business or SCC's present or demonstrably anticipated future research or development related to the consumer adjustable firmness mattress business; or
- (ii) Result from any work ANM or Consultant performs for SCC; or
- (iii) Use SCC's equipment, supplies, facilities, or trade secret information.

The term "Invention," for purposes of this Section 5, shall not include any inventions, discoveries, improvements or ideas (whether or not they are in writing or reduced to practice) or works of authorship (whether or not they can be patented or copyrighted) if and to the extent that any such item is embodied in any work, drawings, notes, files or other documentary evidence within SCC or developed independently by any of the SCC's personnel or resources, and no royalties of any kind shall be payable with respect to any of the items described in this sentence.

(b) Ownership of Inventions. ANM and Consultant agree that all Inventions made by Consultant during the term of this Agreement (including any applicable Renewal Period) related to the consumer adjustable firmness mattress business will be SCC's sole and exclusive property. ANM and Consultant will with respect to any Invention:

- (i) Keep current, accurate, and complete records, which will belong to SCC and, upon SCC's request, such records will be kept and stored on SCC's premises;
- (ii) Promptly and fully disclose the existence and describe the nature of the Invention to SCC in writing (and without request); and
- (iii) Assign (and ANM and Consultant hereby assigns) to SCC all of Consultant's rights to the Invention, any applications Consultant makes for patents or copyrights in any country, and any patents or copyrights granted to Consultant in any country.

(c) ANM's Rights to Use Inventions. Notwithstanding the foregoing, ANM shall have a perpetual, royalty-free, non-transferable license to commercialize any Invention created for SCC in connection with its medical mattress business.

(d) Further Compensation to Consultant for Commercialization of Inventions. In the event that SCC desires to commercialize any patented or other technology owned by ANM (that does not constitute an Invention as defined under this Agreement), SCC and ANM agree to negotiate in good faith to agree on a case-by-case basis on royalties to be paid by SCC. With respect to any new Invention (or other technology) to be

commercialized by SCC, SCC and ANM agree to negotiate in good faith to agree on a case-by-case basis on royalties to be paid by SCC, provided that the parties agree that (i) if the Invention (or other technology) consists of a new product concept, such royalties shall be between and shall not exceed 3% to 6% of the lesser of (1) the incremental profit margin generated by the Invention (or other technology); or (2) the cost of goods sold represented by the Invention (or other technology); and (ii) if the Invention (or other technology) consists of a cost savings idea, such royalties shall be on a sliding scale of 25%, 20%, 15%, 10%, and 5% of the cost savings generated by the Invention (or other technology) for years one through five, respectively. Any such royalties shall be payable for a period not to exceed the shorter of five (5) years or the life of the Invention (or other technology). Neither of the parties shall be permitted to commercialize any Invention for any market until the parties have agreed upon a royalty rate within the range provided above.

(e) Right of First Refusal for Existing Technology. In addition to the foregoing, SCC shall have a right of first refusal to commercialize any existing patented or other technologies owned by ANM

(f) Indemnification by ANM for Claims of Infringement. ANM agrees to indemnify, defend and hold harmless SCC from and against any claims of any third party alleging that any existing technology, information or intellectual property provided by ANM or Consultant to SCC in connection with the performance of this Agreement infringes any intellectual property rights of any such third party.

6. Confidential Information.

(a) "Confidential Information," as used in this Agreement, means any information within the possession of a party that is not generally known and that is proprietary to such party (as evidenced by documentary evidence in the possession of such party) or that such party is obligated to treat as proprietary. Any information that a reasonable person would presume to be Confidential Information, or that the owner treats as Confidential Information, will be presumed to be Confidential Information (regardless of how such information was originated or obtained).

(b) The parties acknowledge and agree that each of the parties hereto may disclose to the other party certain Confidential Information in the course of the business relationship contemplated by this Agreement. The party disclosing Confidential Information is referred to herein as the "Disclosing Party" and the party receiving Confidential Information is referred to herein as the "Receiving Party." The term "Confidential Information" as used in this Agreement shall not include any information that the Receiving Party can show (i) to have been in the Receiving Party's possession prior to the Receiving Party's receipt of such information from the Disclosing Party, (ii) to be now or to later become generally available to the public through no fault of the Receiving Party, (iii) to have been received separately by the Receiving Party in an unrestricted manner from a person entitled to disclose such information, or (iv) to have been developed independently by the Receiving Party without regard to any information received from the Disclosing Party.

(c) Except as specifically authorized by the Disclosing Party, or as necessary

to perform the services contemplated by this Agreement, or as necessary to exercise rights or fulfill obligations under this Agreement, the Receiving Party will not, either during or after the term of this Agreement, use or disclose to any person any Confidential Information of the Disclosing Party. Upon termination of this Agreement, or at any other time at the Disclosing Party's request, the Receiving Party will promptly deliver to the Disclosing Party all records and any compositions, articles, devices, apparatus and other items that disclose, describe or embody Confidential Information, including all copies, reproductions and specimens of the Confidential Information of the Disclosing Party in the Receiving Party's possession, regardless of who prepared them, and will promptly deliver any other property of the Disclosing Party in the Receiving Party's possession, whether or not Confidential Information.

7. Competitive Activities. ANM and Consultant agree that during the term of ANM's and Consultant's engagement with SCC under this Agreement and for a period after ANM's and Consultant's engagement with SCC ends that is equal to (i) twelve (12) months following the termination in the event that the termination occurs within two (2) years of the date of this Agreement; (ii) eighteen (18) months following the termination in the event that the termination occurs more than two (2) years after but within five (5) years of the date of this Agreement; and (iii) twenty-four (24) months following the termination in the event that the termination occurs more than five (5) years after the date of this Agreement, Consultant will not alone, or in any capacity with another firm, directly or indirectly:

(a) Engage in any commercial activity or services related to adjustable firmness sleep surfaces for mattresses or sofa sleepers for the general consumer market within any state in the United States or within any international market; or

(b) Interfere or attempt to interfere with SCC's relationships with any of its current or potential suppliers or customers; or

(c) Employ or attempt to employ any of SCC's then employees on behalf of any other person or entity.

The provisions of this Section 7 shall not prevent ANM or Consultant from continuing ANM's medical business as currently conducted or contemplated by ANM, or from continuing to supply existing consumer air bed and water bed customers listed on Exhibit A, or from continuing to service Nautilus warranty claims as such business has heretofore been conducted by ANM. SCC and Consultant will review Exhibit A quarterly and discuss any changes in ANM's business with the listed companies. In the event that ANM contemplates business expansion beyond 100 beds annually with the companies listed, ANM will receive prior written approval from SCC before expanding.

8. No Employee Benefits. Consultant shall not be considered to be an employee of SCC and shall therefore not be entitled to participate in any of SCC's employee benefit plans or receive any benefits applicable generally to employees of SCC.

9. No Adequate Remedy. The parties understand that if a party fails to fulfill the party's obligations under Sections 5, 6 or 7 of this Agreement, the damages to the other party would be very difficult to determine. Therefore, in addition to any other rights or remedies

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