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8 Counsel for Plaintiff

9 **UNITED STATES DISTRICT COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**

11 _____, INDIVIDUALLY AND ON
12 BEHALF OF ALL OTHERS
13 SIMILARLY SITUATED,

14 Plaintiff,

15 vs.

16 SELECT COMFORT
17 CORPORATION, SHELLY RADUE
18 IBACH, and DAVID R. CALLEN,

19 Defendants.

Case No.:

**CLASS ACTION COMPLAINT FOR
VIOLATIONS OF THE FEDERAL
SECURITIES LAWS**

JURY TRIAL DEMANDED

21
22 Plaintiff _____, individually and on behalf of all other persons similarly
23 situated, by Plaintiff's undersigned attorneys, for Plaintiff's complaint against
24 Defendants, alleges the following based upon personal knowledge as to Plaintiff's
25 own acts, and information and belief as to all other matters, based upon, *inter alia*,
26 the investigation conducted by and through her attorneys, which included, among
27 other things, a review of the defendants' public documents, conference calls and
28 announcements made by defendants, United States Securities and Exchange

1 Commission (“SEC”) filings, wire and press releases published by and regarding
2 Select Comfort Corporation (“Select Comfort” or the “Company”), analysts’
3 reports and advisories about the Company, and information readily obtainable on
4 the Internet. Plaintiff believes that substantial evidentiary support will exist for the
5 allegations set forth herein after a reasonable opportunity for discovery.

6 **NATURE OF THE ACTION**

7 1. This is a federal securities class action on behalf of a class consisting
8 of all persons other than Defendants (defined below) who purchased or otherwise
9 acquired Select Comfort securities between November 5, 2015 and February 11,
10 2016, both dates inclusive (the “Class Period”). Plaintiff seeks to recover
11 compensable damages caused by Defendants’ violations of the federal securities
12 laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities
13 Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated
14 thereunder, against the Company and certain of its officers and/or directors.

15 **JURISDICTION AND VENUE**

16 2. The claims asserted herein arise under §§10(b) and 20(a) of the
17 Exchange Act (15 U.S.C. §§78j(b) and §78t(a)) and Rule 10b-5 promulgated
18 thereunder by the SEC (17 C.F.R. §240.10b-5).

19 3. This Court has jurisdiction over the subject matter of this action under
20 28 U.S.C. §1331 and §27 of the Exchange Act.

21 4. Venue is proper in this District pursuant to §27 of the Exchange Act
22 (15 U.S.C. §78aa) and 28 U.S.C. §1391(b) as a significant portion of the
23 Defendants’ actions, and the subsequent damages, took place within this District.
24 Additionally, the Company conducts business this District.

25 5. In connection with the acts, conduct and other wrongs alleged in this
26 Complaint, Defendants, directly or indirectly, used the means and instrumentalities
27 of interstate commerce, including but not limited to, the United States mail,
28 interstate telephone communications and the facilities of the national securities

1 exchange.

2 **PARTIES**

3 6. Plaintiff, as set forth in the accompanying Certification, which is
4 incorporated by reference herein, purchased Select Comfort securities at artificially
5 inflated prices during the Class Period and was damaged upon the revelation of the
6 alleged corrective disclosures.

7 7. Defendant Select Comfort provides sleep solutions and services in the
8 United States. It designs, manufactures, markets, and retails in beds and bedding
9 accessories, such as mattresses, adjustable bases, pillows, sheets, and other bedding
10 products under the Sleep Number brand name. The Company sells its products
11 through retail, direct marketing, and e-commerce channels. As of January 3, 2015,
12 it operated 463 retail stores in the United States. The Company is incorporated in
13 Minnesota and operates multiple retail stores in this District. Select Comfort's
14 common stock trades on the NASDAQ under the ticker symbol "SCSS".

15 8. Defendant Shelly Radue Ibach ("Ibach") has been the President and
16 Chief Executive Officer of Select Comfort since June 2012.

17 9. Defendant David R. Callen ("Callen") has been the Chief Financial
18 Officer and Senior Vice President of Select Comfort since 2014.

19 10. The Defendants Ibach and Callen are sometimes referred to herein as
20 the "Individual Defendants."

21 11. Defendant Select Comfort and the Individual Defendants are referred
22 to herein, collectively, as the "Defendants."

23 **SUBSTANTIVE ALLEGATIONS**

24 **MATERIALLY FALSE AND MISLEADING STATEMENTS**

25 12. On November 4, 2015, the Company issued a press release
26 announcing its third quarter 2015 results and issuing its guidance for the fourth
27 quarter of 2015, stating in part:

28 **Financial Outlook**

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The company confirmed its guidance for 2015 earnings per diluted share of \$1.35. The outlook remains as planned and assumes sales growth for the second-half of the year consistent with previous guidance of mid- to high-single-digit, adjusting for the extra week in the prior year's fourth quarter. It assumes approximately 490 stores at year end, a 6% increase versus the prior year end. We continue to expect our full-year 2015 return on invested capital (ROIC) to be in the mid-teens, above our 10% weighted average cost of capital.

For reference, earnings for fourth quarter 2014 included \$0.10 per diluted share of one-time benefits (\$0.06 for the extra week and \$0.04 for a legal settlement). Please refer to the last schedule of this news release for supplemental financial information that summarizes discrete items impacting our outlook for the second-half of our fiscal year.

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SELECT COMFORT CORPORATION AND SUBSIDIARIES

Fiscal 2015 Outlook - Supplemental Information

Full-Year 2015 Outlook*	Second-Half 2015 Outlook*	Q3-2015 Actual	Q4-2015 Outlook
\$1.35	\$0.60	\$0.62	(\$0.02)

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**As per outlook provided on July 22, 2015 and reiterated November 4, 2015*

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Select discrete items of note (not all inclusive)

<i>Net impact of BAM Labs acquisition¹</i>	-	-	\$0.04	(\$0.04)
<i>Accelerated shipments into Q3 from Q4 (\$10M sales estimate)²</i>	-	-	\$0.04	(\$0.04)
<i>Q4 inefficiencies (sales & costs) from systems cutover³</i>	(\$0.09)	(\$0.09)	-	(\$0.09)
<i>ERP implementation data conversion and training costs⁴</i>	(\$0.16)	(\$0.13)	(\$0.09)	(\$0.04)
<i>Incremental information technology depreciation in G&A⁵</i>	(\$0.04)	(\$0.04)	-	(\$0.04)

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¹ Includes Q3 reported gain on our minority equity investment in BAM Labs (~18% ownership of BAM Labs prior to the acquisition) based on the remeasured fair value less acquisition related expenses; Q4 estimated operating income impact of including BAM Labs financial results in our consolidated operating income and EPS, including amortization of acquired definite-lived intangible assets. Note: BAM Labs acquisition expected to be accretive to EPS in 2017

² In advance of our ERP implementation, an estimated \$10 million of sales were accelerated into Q3 from Q4

³ Estimated negative sales impact of \$10 million to \$12 million in Q4-2015 along with cost inefficiencies as processes are migrated to the new ERP system

⁴ Costs to convert data from our prior legacy systems to our new ERP system, and enterprise-wide training expenses related to the new ERP system

⁵ Includes incremental depreciation related to our new ERP system and other technology system enhancements

13. With respect to these results and the issued guidance for the fourth quarter of 2015, Individual Defendant Ibach stated:

“Our third quarter and year-to-date sales and profitability demonstrate the strength of our consumer innovation strategy and business model, even as we take on large transformational initiatives,” said Shelly Ibach, president and chief executive officer of Select Comfort. **“We have implemented our new ERP system on time and on budget.**

1 As anticipated, the implementation has caused customer service and
2 delivery disruptions, which we expect to be isolated to the fourth
3 quarter. We look forward to the agility and efficiencies this system
4 will enable for our customers and team. **Our strategy and results
5 remain on track and we are reaffirming our 2015 outlook
6 of \$1.35 per share.”**

7 (Emphasis added).

8 14. On November 4, 2015, Select Comfort held an investor conference
9 call to discuss Select Comfort’s third quarter 2015 results. During the call,
10 Defendant Ibach stated in part:

11 **Shelly Radue Ibach - President, Chief Executive Officer &
12 Director:**

13 Our new ERP systems went live the second week of October, on time
14 and on budget. Ultimately, the new processes will result in greater
15 agility, speed, and efficiency while simplifying our customers' service
16 experience. I want to thank our employees and partners for their
17 incredible contributions in preparation for and in the implementation
18 of our new system. Almost every employee has needed to learn how
19 to do his or her job differently. It takes a high level of engagement,
20 capability, coordination, and perseverance to accomplish an ERP
21 implementation of this magnitude and complexity. **Three weeks after
22 our go-live, the system is stable, the design is effective, and we are
23 operating the new system across the company.** Stores are
24 processing all their transactions, plants are manufacturing and
25 shipping products, customer service is scheduling and routing, and
26 home delivery teams are delivering.

27 * * *

28 **Shelly Radue Ibach - President, Chief Executive Officer &
Director:**

**Our lead times are currently 21 days for most of our products,
versus our typical 14 days. We expect to be operating efficiently,
with normal customer service levels, within the quarter. We
appropriately forecasted for the implementation challenges, and
we remain on track to deliver full year earnings per share of**

1 **\$1.35, consistent with our previous guidance.**

2 * * *

3
4 **John Baugh - Stifel, Nicolaus & Co., Inc.:**

5 Thank you and good evening. I'd really love to know (32:05) Sleep
6 Number IQ for the first week of October. I have few things here. First
7 on the delivery, **you said I think that you'll be back two weeks by**
8 **the time you exit this quarter.** Did I hear that correctly? And then
9 where are we with the free delivery, when do you anticipate pulling
that?

10 **Shelly Radue Ibach - President, Chief Executive Officer &**
11 **Director:**

12 Yes, John, couple of things. First of all, we did end the free home
13 delivery a couple weeks ago or a week after the 26th is when we
14 ended the free home delivery and **we are currently at 21-day lead**
15 **time for the majority of our products. Then your other question**
16 **was about normal customer service timeframes and, yes, we did**
17 **state that we expected to be back to normal within the quarter.**

18 * * *

19 **Shelly Radue Ibach - President, Chief Executive Officer &**
20 **Director:**

21 Yes. A couple of things to add on the fourth quarter. I think the other
22 part of your question was how we exit 2015 and head into 2016, and
23 that directly ties to your question about the marketing spend. One of
24 the things we've learned, certainly in our formula, is to have a steady
25 baseline of marketing spend. So we are continuing to do that through
26 the ERP and obviously, that creates some deleverage in media in this
27 quarter. So we're continuing our spend. **We expect to return to our**
28 **normal customer service levels within the quarter. We expect to**
have a very strong holiday and a strong exit going into 2016. And
what you're seeing, the impact on fourth quarter in addition to
the 53rd week, is really about the ERP implementation, primarily

1 in the month of October, and that's – obviously we planned it for
2 this time period, because it is a lower sales period for us. But we
3 expect to be where we need to be as we head into the holidays.

4 * * *

5 **Keith Hughes - SunTrust Robinson Humphrey, Inc.:**

6 Yeah. So, just general pace of business here in October as we began
7 the fourth quarter, have you noticed any notable
8 acceleration/deceleration on a same-store sale basis, anything of that
9 nature?

10 **Shelly Radue Ibach - President, Chief Executive Officer &**
11 **Director:**

12 Well, it obviously has been clouded with our ERP implementation,
13 and that has really been the centerpiece for us in the month of
14 October. We chose the month of October for this very reason,
15 understanding that it has a very small market share event, in the early
16 part of October, and then it's a much slower month than the rest and
17 **expect to be well positioned as we head into the holidays.**

(Emphasis added).

18 15. During the same call, Defendant Callen stated in part:

19 We are confirming our 2015 full year guidance for EPS of a \$1.35.
20 This outlook implies EPS growth of 27% excluding this \$0.06 from
21 the 53rd week benefit in 2014 and \$0.16 of estimated ERP launch
22 costs in 2015. **Our outlook continues to assume mid to high single**
23 **digit second half sales growth adjusted for the extra week last**
24 **year, an estimated \$10 million to \$12 million sales drag in Q4**
25 **from ERP implementation inefficiencies, or \$0.09 of EPS impact,**
and full year ROIC of approximately 14%, in line with our long-term
expectations.

26 * * *

27 **Peter Jacob Keith - Piper Jaffray & Co (Broker):**
28

1 Okay. Okay, good. And then just looking to Q4, when you look at
2 online, social media, there obviously are some upset customers and
3 they'll probably settle out over the coming weeks, but have you
4 contemplated the possibility of cancelled orders, at this point, maybe
5 things that have already been booked at the store but might get
6 cancelled before delivery and how should we think about that?

7 **David R. Callen - Chief Financial Officer & Senior Vice
8 President:**

9 **Yes, absolutely and that's contemplated in the \$10 million of \$12
10 million of sales impact that we highlighted in the last page of the
11 press release table.** We included that table because of there are so
12 many moving parts, we wanted to make sure everybody had a clear
13 line of sight to all the parts that we're thinking about. **In there
14 cancellations are definitely a part of what we considered in
15 establishing that estimate for the \$10 million to \$12 million.**

16 **Peter Jacob Keith - Piper Jaffray & Co (Broker):**

17 Okay. And that's the \$0.09 drag for Q4?

18 **David R. Callen - Chief Financial Officer & Senior Vice
19 President:**

20 **Right, which also includes anticipated inefficiencies.**

21 * * *

22 **Bradley B. Thomas - KeyBanc Capital Markets, Inc.:**

23 Perfect. And then, just to ask it directly, to make sure we're clear.
24 When you quantify the \$10 million to \$12 million of negative sales
25 effects, that's assumed just to be lost. You're not assuming that spills
26 into the first quarter, are you?

27 **David R. Callen - Chief Financial Officer & Senior Vice
28 President:**

No. We are assuming that those are lost sales.

1 (Emphasis added).

2 16. The statements referenced in ¶¶ 12 – 15 above were materially false
3 and/or misleading because they misrepresented and failed to disclose the following
4 adverse facts pertaining to the Company’s business, operational and financial
5 results, which were known to Defendants or recklessly disregarded by them.
6 Specifically, Defendants made false and/or misleading statements and/or failed to
7 disclose that: (1) the transition from the Company’s legacy systems to a fully
8 integrated ERP platform would cause severe customer and financial impacts; and
9 (2) as a result, Defendants’ statements about Select Comfort’s business, operations
10 and prospects were materially false and misleading and/or lacked a reasonable
11 basis at all relevant times.

12 **TRUTH EMERGES**

13 17. On February 11, 2016, during aftermarket hours Select Comfort
14 issued a press release announcing disappointing fourth quarter 2015 results (“2015
15 4Q”) that were not remotely consistent with the Company’s earlier projections and
16 statements, stating in part:

17
18 **Select Comfort Announces Fourth-Quarter and Full-Year 2015**
19 **Results**

- 20 • Enterprise Resource Planning (ERP) system implementation
21 impacts Q4 results by \$0.43 per share
22 • Reports fourth-quarter net loss of \$0.42 per share and full-year
23 earnings of \$0.97 per share
24 • Repurchased \$98 million of the company's common stock in 2015
25 versus \$45 million in 2014
26 • Provides 2016 outlook

26 * * *

27 Please refer to the last table in this news release for supplemental
28 financial information that summarizes discrete items affecting 2015
fourth-quarter results and our 2016 outlook.

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Fourth-quarter Results Overview

- **Net sales** decreased 33% to \$215 million, with comparable sales down 30%, reflecting approximately \$84 million in sales disruption from the ERP system implementation. Note that the prior year’s fourth quarter also included an extra week of sales
- **Net loss per diluted share** of \$0.42, including \$0.43 per share for lost sales and operational inefficiencies related to the ERP system implementation, compared with earnings per share of \$0.35 last year

* * *

SELECT COMFORT CORPORATION AND SUBSIDIARIES
Fiscal 2015 Actuals and 2016 Outlook - Supplemental Information

	<u>Diluted Earnings Per Share</u>	
	<u>Q4-2015</u>	<u>Full-Year 2016</u>
	<u>Actual</u>	<u>Outlook</u>
<u>Select discrete items of note (not all inclusive)</u>		
Estimated lost sales ¹	(\$0.16)	
Elevated cancellations, appeasements and returns ²	(\$0.14)	
Higher than normal level of undelivered orders at end of fiscal 2015 ³	(\$0.11)	
Other, net	(\$0.02)	
ERP implementation inefficiencies (sales & costs) from systems cutover ⁴	(\$0.43)	(\$0.25) to (\$0.30)
ERP implementation data conversion and training costs ⁵	(\$0.03)	-
Incremental information technology depreciation in G&A ⁶	(\$0.03)	(\$0.12)
SleepIQ LABS (formerly known as BAM Labs, Inc.) ⁷	(\$0.04)	(\$0.13)
Accelerated shipments into Q3 from Q4 (\$10M sales estimate) ⁸	(\$0.04)	-

ERP related impacts

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Net sales impact (traffic and conversion) tied to greater than anticipated challenges early in the fiscal fourth quarter (estimated \$34 million net sales impact)

2
Incremental order cancellation rates, customer appeasements (product discounts) and product returns related to delivery and fulfillment challenges (estimated \$26 million net sales impact)

3
Undelivered orders at year-end 2015 were higher than historical levels (estimated \$23 million net sales impact)

4
For 2016, estimated lost net sales and cost inefficiencies (estimated \$40 to \$50 million net sales impact largely in the first quarter)

5
Costs to convert data from our prior legacy systems to our new ERP system, and enterprise-wide training expenses

6
Includes incremental depreciation related to our new ERP system and other technology system enhancements

Other discrete items of note

7
Includes Q3-2015 reported gain on our minority equity investment in BAM Labs, Inc. (~18% ownership of BAM Labs, Inc. prior to the acquisition) based on the remeasured fair value less acquisition related expenses; 2016 represents estimated operating income impact of including SleepIQ LABS financial results in our consolidated operating income and EPS, including amortization of acquired definite-lived intangible assets. Note: acquisition expected to be accretive to EPS in 2017

8
In advance of our ERP system implementation, an estimated \$10 million of net sales were accelerated into Q3-2015 from Q4-2015

18. With respect to these results, Individual Defendant Ibach stated:

“The transition from our 20-year-old legacy systems to a fully integrated ERP platform has been more challenging with far greater customer and financial impacts than we anticipated. Many of our customers endured delays and delivery reschedules as we ramped up the new system. These results are not acceptable to us,” said Shelly Ibach, president and chief executive officer of Select Comfort. “We have made major progress resolving technical and operational issues. Plants have increased production levels ahead of current demand and

1 operational and customer service levels have significantly improved.
2 We expect to leverage this critical investment for improved
3 profitability in the back-half of 2016 as planned. Our competitive
4 advantages and strategic direction remain on track to achieve our
5 commitment of earnings per share of \$2.75 by 2019.”

6 19. On February 11, 2016, during aftermarket hours Select Comfort held
7 an investor conference call to discuss Select Comfort’s 2015 Q4 Results and in an
8 exchange with investors, Defendant Ibach stated in part:

9 **Shelly Ibach:**

10 We had a very challenging end to 2015, disappointing our customers
11 and incurring a \$0.42 per share loss in the fourth quarter. Many of our
12 customers were negatively affected by frustrating delays and delivery
13 reschedules as we ramped our new ERP system.

14 For the full year net sales were up 5%, operating income declined
15 26% and diluted earnings per share were \$0.97. These results are not
16 acceptable to us.

17 The transition from our patchwork legacy systems and manual
18 processes to a fully-integrated end-to-end ERP platform, expose
19 significant complexities. **Overall, our challenges were a result of**
20 **two things. First, slowing our backlog of orders too quickly at too**
21 **higher volumes and second inaccurate data signaling between**
22 **plants, delivery hubs and our customers.**

23 * * *

24 **Shelly Ibach:**

25 Now let’s talk about the implementation challenges. When we spoke
26 to you on the last earnings call, we had been operating on the new
27 system for about three weeks, it was stable and we were using it
28 across the company but not efficiently or at normal volumes.

Our frontend systems were performing relatively well and data

1 conversion was successful. **We had a sideline to issues in the plants**
2 **and related customer impact.** At the time we expected to contain the
3 issues and the operating effectively with normal service times within
4 the fourth quarter.

5 What we did not yet understand was the **full extent of plant in**
6 **supply chain challenges** as we ramped up volumes or the
7 compounding **impact on our customer service levels.**

8 * * *

9 **Bobby Griffin:**

10 Good afternoon everybody. This is Bobby filing in for Budd. I
11 appreciate you guys taking my questions. I was hoping to just get a
12 little bit more color on the timeframe of how the events unfolded with
13 ERP from when we last spoke on November 4 until today. I was
14 having trouble following along in the prepared remarks, **when the big**
15 **difference from plant started to impact the results.**

16 **Shelly Ibach:**

17 Yes Bobby, when we last spoke on our earnings call, that was
18 November 4, and I summarized where we thought we were at that
19 time. As we progressed through the month, we had a line of sight of
20 some difficulties we were having in our plants at that time. And we're
21 on the sold, we thought of those particular issues.

22 What began to reveal itself as we entered December, late November,
23 we started to have increasing reschedules. And the timeframe, as we
24 got into December when we were ramping up, we had more
25 significant issues.

26 **The issue, the number one problem we had is the amount of**
27 **volume that we put through early on. And then that ended up**
28 **clouding the real root cause of our plant to hub signals.** So by late
December is when we knew we had to slowdown and relay very clear
on root cause, our recovery plan of what it was going to take to get
ourselves recovered both with the pipeline and the root cause of the
issues.

1 And we've had clear milestones in each week that we've been able to
2 achieve since the last week of December, all the way through this
3 week.

4 **Bobby Griffin:**

5 So the big disconnect between the plant delivery and the customers as
6 you called in the prepared remarks occurred after November 4, it
7 occurred in December. Is that safe to assume?

8 **Shelly Ibach:**

9 **It began to show off in a small way in November** and then as we
10 continue to ramp, it became larger.

11 (Emphasis added).

12 20. On February 11, 2016, during aftermarket hours Select Comfort held
13 an investor conference call to discuss Select Comfort's 2015 Q4 Results and in an
14 exchange with investors, Defendant Callen stated in part:

15
16 **David Callen**

17 Thank you, Shelly. Good afternoon. Our Q4 financial results and
18 execution of the ERP implementation was surely disappointing. While
19 we got a lot of right with the system design which benefited from
20 embedding functional experts full time on the project, **we**
21 **underestimated the challenges and financial impacts when things**
22 **didn't go according to plan.**

23
24 * * *

25 Our loss per share in Q4 was \$0.42, including an estimated \$0.43 of
26 loss sales and net incremental cost from our ERP implementation
27 challenges.

28 (Emphasis added).

29 21. On this news, shares of Select Comfort fell \$4.93 per share or
approximately 24% from its previous closing price to close at \$15.58 per share on

1 February 12, 2016, damaging investors.

2 22. As a result of Defendants' wrongful acts and omissions, and the
3 precipitous decline in the market value of the Company's securities, Plaintiff and
4 other class members have suffered significant losses and damages.

5 **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

6 23. Plaintiff brings this action as a class action pursuant to Federal Rule of
7 Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who
8 purchased or otherwise acquired Select Comfort securities traded on NASDAQ
9 during the Class Period (the "Class"); and were damaged upon the revelation of the
10 alleged corrective disclosures. Excluded from the Class are Defendants herein, the
11 officers and directors of the Company, at all relevant times, members of their
12 immediate families and their legal representatives, heirs, successors or assigns and
13 any entity in which Defendants have or had a controlling interest.

14 24. The members of the Class are so numerous that joinder of all
15 members is impracticable. Throughout the Class Period, Select Comfort securities
16 were actively traded on NASDAQ. While the exact number of Class members is
17 unknown to Plaintiff at this time and can be ascertained only through appropriate
18 discovery, Plaintiff believes that there are hundreds or thousands of members in the
19 proposed Class. Record owners and other members of the Class may be identified
20 from records maintained by Select Comfort or its transfer agent and may be
21 notified of the pendency of this action by mail, using the form of notice similar to
22 that customarily used in securities class actions.

23 25. Plaintiff's claims are typical of the claims of the members of the Class
24 as all members of the Class are similarly affected by Defendants' wrongful
25 conduct in violation of the federal law that is complained of herein.

26 26. Plaintiff will fairly and adequately protect the interests of the
27 members of the Class and has retained counsel competent and experienced in class
28 and securities litigation. Plaintiff has no interests antagonistic to or in conflict with

1 those of the Class.

2 27. Common questions of law and fact exist as to all members of the
3 Class and predominate over any questions solely affecting individual members of
4 the Class. Among the questions of law and fact common to the Class are:

- 5 • whether the federal securities laws were violated by Defendants' acts
6 as alleged herein;
- 7 • whether statements made by Defendants to the investing public during
8 the Class Period misrepresented material facts about the business,
9 operations and management of Select Comfort;
- 10 • whether the Individual Defendants caused Select Comfort to issue
11 false and misleading public statements during the Class Period;
- 12 • whether Defendants acted knowingly or recklessly in issuing false and
13 misleading public statements;
- 14 • whether the prices of Select Comfort securities during the Class
15 Period were artificially inflated because of the Defendants' conduct
16 complained of herein; and,
- 17 • whether the members of the Class have sustained damages and, if so,
18 what is the proper measure of damages.

19 28. A class action is superior to all other available methods for the fair
20 and efficient adjudication of this controversy since joinder of all members is
21 impracticable. Furthermore, as the damages suffered by individual Class members
22 may be relatively small, the expense and burden of individual litigation make it
23 impossible for members of the Class to individually redress the wrongs done to
24 them. There will be no difficulty in the management of this action as a class action.

25 29. Plaintiff will rely, in part, upon the presumption of reliance
26 established by the fraud-on-the-market doctrine in that:

- 27 • Defendants made public misrepresentations or failed to disclose
28 material facts during the Class Period;

- 1 • the omissions and misrepresentations were material;
- 2 • Select Comfort securities are traded in efficient markets;
- 3 • the Company's shares were liquid and traded with moderate to heavy
- 4 volume during the Class Period;
- 5 • the Company traded on NASDAQ, and was covered by multiple
- 6 analysts;
- 7 • the misrepresentations and omissions alleged would tend to induce a
- 8 reasonable investor to misjudge the value of the Company's
- 9 securities; and
- 10 • Plaintiff and members of the Class purchased and/or sold Select
- 11 Comfort securities between the time the Defendants failed to disclose
- 12 or misrepresented material facts and the time the true facts were
- 13 disclosed, without knowledge of the omitted or misrepresented facts.

14 30. Based upon the foregoing, Plaintiff and the members of the Class are
15 entitled to a presumption of reliance upon the integrity of the market.

16 31. Alternatively, Plaintiff and the members of the Class are entitled to
17 the presumption of reliance established by the Supreme Court in *Affiliated Ute*
18 *Citizens of the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972),
19 as Defendants omitted material information in their Class Period statements in
20 violation of a duty to disclose such information, as detailed above.

21 **COUNT I**

22 **Violation of Section 10(b) of The Exchange Act and Rule 10b-5**

23 **Against All Defendants**

24 32. Plaintiff repeats and realleges each and every allegation contained
25 above as if fully set forth herein.

26 33. This Count is asserted against Defendants and is based upon Section
27 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated
28 thereunder by the SEC.

1 34. During the Class Period, Defendants engaged in a plan, scheme,
2 conspiracy and course of conduct, pursuant to which they knowingly or recklessly
3 engaged in acts, transactions, practices and courses of business which operated as a
4 fraud and deceit upon Plaintiff and the other members of the Class; made various
5 untrue statements of material facts and omitted to state material facts necessary in
6 order to make the statements made, in light of the circumstances under which they
7 were made, not misleading; and employed devices, schemes and artifices to
8 defraud in connection with the purchase and sale of securities. Such scheme was
9 intended to, and, throughout the Class Period, did: (i) deceive the investing public,
10 including Plaintiff and other Class members, as alleged herein; (ii) artificially
11 inflate and maintain the market price of Select Comfort securities; and (iii) cause
12 Plaintiff and other members of the Class to purchase or otherwise acquire Select
13 Comfort securities and options at artificially inflated prices. In furtherance of this
14 unlawful scheme, plan and course of conduct, Defendants, and each of them, took
15 the actions set forth herein.

16 35. Pursuant to the above plan, scheme, conspiracy and course of conduct,
17 each of the Defendants participated directly or indirectly in the preparation and/or
18 issuance of the quarterly and annual reports, SEC filings, press releases and other
19 statements and documents described above, including statements made to
20 securities analysts and the media that were designed to influence the market for
21 Select Comfort securities. Such reports, filings, releases and statements were
22 materially false and misleading in that they failed to disclose material adverse
23 information and misrepresented the truth about Select Comfort's finances and
24 business prospects.

25 36. By virtue of their positions at Select Comfort, Defendants had actual
26 knowledge of the materially false and misleading statements and material
27 omissions alleged herein and intended thereby to deceive Plaintiff and the other
28 members of the Class, or, in the alternative, Defendants acted with reckless

1 disregard for the truth in that they failed or refused to ascertain and disclose such
2 facts as would reveal the materially false and misleading nature of the statements
3 made, although such facts were readily available to Defendants. Said acts and
4 omissions of Defendants were committed willfully or with reckless disregard for
5 the truth. In addition, each defendant knew or recklessly disregarded that material
6 facts were being misrepresented or omitted as described above.

7 37. Information showing that Defendants acted knowingly or with
8 reckless disregard for the truth is peculiarly within Defendants' knowledge and
9 control. As the senior managers and/or directors of Select Comfort, the Individual
10 Defendants had knowledge of the details of Select Comfort's internal affairs.

11 38. The Individual Defendants are liable both directly and indirectly for
12 the wrongs complained of herein. Because of their positions of control and
13 authority, the Individual Defendants were able to and did, directly or indirectly,
14 control the content of the statements of Select Comfort. As officers and/or directors
15 of a publicly-held company, the Individual Defendants had a duty to disseminate
16 timely, accurate, and truthful information with respect to Select Comfort's
17 businesses, operations, future financial condition and future prospects. As a result
18 of the dissemination of the aforementioned false and misleading reports, releases
19 and public statements, the market price for Select Comfort's securities was
20 artificially inflated throughout the Class Period. In ignorance of the adverse facts
21 concerning Select Comfort's business and financial condition which were
22 concealed by Defendants, Plaintiff and the other members of the Class purchased
23 or otherwise acquired Select Comfort securities at artificially inflated prices and
24 relied upon the price of the securities, the integrity of the market for the securities
25 and/or upon statements disseminated by Defendants, and were damaged upon the
26 revelation of the alleged corrective disclosures.

27 39. During the Class Period, Select Comfort's securities were traded on
28 an active and efficient market. Plaintiff and the other members of the Class, relying

1 on the materially false and misleading statements described herein, which the
2 Defendants made, issued or caused to be disseminated, or relying upon the
3 integrity of the market, purchased or otherwise acquired shares of Select Comfort
4 securities at prices artificially inflated by Defendants' wrongful conduct. Had
5 Plaintiff and the other members of the Class known the truth, they would not have
6 purchased or otherwise acquired said securities, or would not have purchased or
7 otherwise acquired them at the inflated prices that were paid. At the time of the
8 purchases and/or acquisitions by Plaintiff and the Class, the true value of Select
9 Comfort securities was substantially lower than the prices paid by Plaintiff and the
10 other members of the Class. The market price of Select Comfort's securities
11 declined sharply upon public disclosure of the facts alleged herein to the injury of
12 Plaintiff and Class members.

13 40. By reason of the conduct alleged herein, Defendants knowingly or
14 recklessly, directly or indirectly, have violated Section 10(b) of the Exchange Act
15 and Rule 10b-5 promulgated thereunder.

16 41. As a direct and proximate result of Defendants' wrongful conduct,
17 Plaintiff and the other members of the Class suffered damages in connection with
18 their respective purchases, acquisitions and sales of the Company's securities
19 during the Class Period, upon the disclosure that the Company had been
20 disseminating materially false and misleading statements to the investing public.

21 **COUNT II**

22 **Violation of Section 20(a) of The Exchange Act** 23 **Against The Individual Defendants**

24 42. Plaintiff repeats and realleges each and every allegation contained in
25 the foregoing paragraphs as if fully set forth herein.

26 43. During the Class Period, the Individual Defendants participated in the
27 operation and management of Select Comfort, and conducted and participated,
28 directly and indirectly, in the conduct of Select Comfort's business affairs. Because
of their senior positions, they knew the adverse non-public information regarding

1 Select Comfort's business practices.

2 44. As officers and/or directors of a publicly owned company, the
3 Individual Defendants had a duty to disseminate accurate and truthful information
4 with respect to Select Comfort's financial condition and results of operations, and
5 to correct promptly any public statements issued by Select Comfort which had
6 become materially false or misleading.

7 45. Because of their positions of control and authority as senior officers,
8 the Individual Defendants were able to, and did, control the contents of the various
9 reports, press releases and public filings which Select Comfort disseminated in the
10 marketplace during the Class Period. Throughout the Class Period, the Individual
11 Defendants exercised their power and authority to cause Select Comfort to engage
12 in the wrongful acts complained of herein. The Individual Defendants therefore,
13 were "controlling persons" of Select Comfort within the meaning of Section 20(a)
14 of the Exchange Act. In this capacity, they participated in the unlawful conduct
15 alleged which artificially inflated the market price of Select Comfort securities.

16 46. Each of the Individual Defendants, therefore, acted as a controlling
17 person of Select Comfort. By reason of their senior management positions and/or
18 being directors of Select Comfort, each of the Individual Defendants had the power
19 to direct the actions of, and exercised the same to cause, Select Comfort to engage
20 in the unlawful acts and conduct complained of herein. Each of the Individual
21 Defendants exercised control over the general operations of Select Comfort and
22 possessed the power to control the specific activities which comprise the primary
23 violations about which Plaintiff and the other members of the Class complain.

24 47. By reason of the above conduct, the Individual Defendants are liable
25 pursuant to Section 20(a) of the Exchange Act for the violations committed by
26 Select Comfort.

27 **PRAYER FOR RELIEF**

28 WHEREFORE, Plaintiff demands judgment against Defendants as follows:

1 A. Determining that the instant action may be maintained as a class
2 action under Rule 23 of the Federal Rules of Civil Procedure, and certifying
3 Plaintiff as the Class representative;

4 B. Requiring Defendants to pay damages sustained by Plaintiff and the
5 Class by reason of the acts and transactions alleged herein;

6 C. Awarding Plaintiff and the other members of the Class prejudgment
7 and post- judgment interest, as well as their reasonable attorneys' fees, expert fees
8 and other costs; and

9 D. Awarding such other and further relief as this Court may deem just
10 and proper.

11 **DEMAND FOR TRIAL BY JURY**

12 Plaintiff hereby demands a trial by jury.

13
14 Dated: February __, 2016

Respectfully submitted,

15
16 **THE ROSEN LAW FIRM, P.A.**

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