

LUMBER LIQUIDATORS HOLDINGS, INC.

CORPORATE GOVERNANCE GUIDELINES

The guidelines, principles and policies described below (the “Guidelines”) have been developed and approved by the Board of Directors (the “Board”) of Lumber Liquidators Holdings, Inc. (the “Company”). The Guidelines, together with the charters of the committees established by the Board (the “Committees”), provide a framework and context for the governance of the Company.

I. Responsibilities of the Board

The Board, elected by the Company’s stockholders, is the ultimate decision-making body of the Company, except with respect to matters reserved to the stockholders. The Board appoints the Chief Executive Officer and the Company’s other executive officers (collectively, the “Executive Officers”), who are charged with directing the Company’s business.

The Board’s primary function is therefore oversight – defining and enforcing standards of accountability that enable the Company’s Executive Officers to execute their responsibilities fully and in the interests of stockholders. Consistent with that function, the following are the primary responsibilities of the Board:

- ❖ Evaluating the performance of the Company and its Executive Officers, which includes:
 - overseeing the conduct of the Company’s business to evaluate whether it is being effectively managed, including through regular meetings of non-management Directors outside the presence of management; and
 - selecting, regularly evaluating and planning for the succession of the Chief Executive Officer and such other Executive Officers as the Board deems appropriate;
- ❖ Reviewing and approving the Company’s budget and operating plans;
- ❖ Reviewing the Company’s strategic plans and objectives;
- ❖ Reviewing the principal risk exposures of the Company, including reviewing the Company’s enterprise risk management program;
- ❖ Providing advice and counsel to the Chief Executive Officer and to other Executive Officers as the Board deems appropriate;
- ❖ Assisting management in the oversight of the Company’s compliance with applicable laws and regulations, including in connection with its public reporting obligations;
- ❖ Overseeing management with a goal of ensuring that the Company’s assets are safeguarded through the maintenance of appropriate accounting, financial and other controls;
- ❖ Appointing the members of and overseeing any required or appropriate Committees of the Board established for the purpose of executing any delegated responsibilities;
- ❖ Establishing the form and amount of compensation for Directors, taking into account their responsibilities as such and as members of any Committee of the Board;

- ❖ Determining whether and on what terms to grant any Director, Executive Officer or other employee a waiver from the Company’s Code of Business Conduct and Ethics; and
- ❖ Evaluating the overall effectiveness of the Board and its Committees, as well as selecting and recommending to stockholders for election an appropriate slate of candidates for the Board.

In discharging their responsibilities, Directors must exercise their business judgment to act in a manner that they believe in good faith is in the best interests of the Company and its stockholders. In discharging that obligation, Directors should be entitled to rely on the honesty and integrity of the Executive Officers and its outside advisors and the Company’s independent registered accounting firm. Directors are expected to attend all or substantially all meetings of the Board and any Committees of the Board on which they serve. Directors are also expected to spend the time necessary to discharge their responsibilities appropriately and to ensure that other existing or future commitments do not materially interfere with their responsibilities as members of the Board.

Directors shall be entitled to require that the Company purchase reasonable liability insurance on their behalf and to accord them the benefits of indemnification and exculpation to the fullest extent permitted by applicable law and the Company’s Certificate of Incorporation and Bylaws.

II. Structure and Operation of the Board

A. *Size and Composition*

The Company’s Bylaws provide that the number of Directors shall be such number as is from time to time determined in the manner provided in the Company’s Certificate of Incorporation. On an annual basis, the Nominating and Corporate Governance Committee shall consider the size and composition of the Board and report to the Board the results of its review and any recommendations for change.

The Board requires that a majority of the Directors be “independent” Directors, as defined by the New York Stock Exchange requirements (collectively, the “Independent Directors”). Members of the Board may not serve on the board of directors of more than two other public companies. The Chief Executive Officer or any other Executive Officer serving as a member of the Board, may not be a member of the board of directors of more than one other public company. A Director is expected to notify the Chairperson of the Board (the “Chairperson”) of his or her intention to serve on the board of directors of any other public company in advance of accepting such new position.

The Board is responsible for selecting candidates for membership on the Board and for extending invitations to join the Board through the Nominating and Corporate Governance Committee. Candidates shall be selected for their character, judgment, business experience, specific areas of expertise and principles of diversity, among other relevant considerations, such as the requirements of applicable law and listing standards. The Board recognizes the importance of soliciting new candidates for membership on the Board and that the needs of the Board, in terms of the relative experience and other qualifications of candidates, may change over time. Any Director is free to recommend a candidate for nomination to the Board. Consistent with its charter, the Nominating and Corporate Governance Committee is responsible for screening candidates (in consultation with the Chairperson of the Board and the Chief Executive Officer), for establishing

criteria for nominees and for recommending to the Board a slate of nominees for election to the Board at the Annual Meeting of Stockholders. Final approval of any candidate shall be determined by the Board.

Each Director's continuation on the Board will be reviewed prior to the expiration of his or her term and before that Director is considered for re-election. In connection with its annual recommendation of a slate of nominees, the Nominating and Corporate Governance Committee shall assess the contributions of those Directors who may be considered for re-election. The Board does not believe that it is advisable to establish term limits for its Directors because such limits may deprive the Company and its stockholders of the contribution of Directors who have been able to develop valuable insights into the Company and its operations over time. It is expected, however, that a Director will not stand for re-election after reaching the age of 72, unless the Board determines, in its discretion, that it is in the Company's best interest for such Director to stand for re-election. Any vacancy in the Board that results from an increase in the number of Directors or from the death, disability, resignation, disqualification, or removal of any Director, or from any other cause may, at the discretion of the Board, be filled by the affirmative vote of a majority of the total number of Directors then in office, even if less than a quorum, or by a sole remaining Director; such newly elected Director to serve for such term as may be set by the Board, taking into consideration the recommendation of the Nominating and Corporate Governance Committee.

If any Director changes his or her employer or significantly changes his or her position or responsibilities with an employer, the Director should offer to resign from the Board. The Board will, at such time, consider the Director's offer to resign and determine whether to accept the resignation based on the circumstances. A Director who is an employee of the Company who ceases to be an employee of the Company will tender his or her resignation from the Board for consideration at the same time they cease to be an employee of the Company. In the event such Director fails to tender his or her resignation for the Board's consideration prior to the termination of employment, he or she shall immediately cease to be a Director as of the date his or her employment ends. The Board may also appoint an individual to fill any vacancy on the Board.

B. *Annual Self-Evaluation*

The Board shall conduct a self-evaluation at least annually to determine whether it and its Committees are functioning effectively. Consistent with its charter, the Nominating and Corporate Governance Committee shall lead and oversee the self-evaluation process. Each standing committee of the Board shall also conduct an annual performance self-evaluation. The Nominating and Corporate Governance Committee will establish the criteria to be used in the Board and committee self-evaluations.

C. *Office of Chairperson of the Board*

The Chairperson of the Board shall be elected on an annual basis by the Board from the Independent Directors to serve until the next Annual Meeting of stockholders. In addition to the duties of all Board members, the Chairperson shall have such duties as determined from time to time by the Board and in conformity with the Company's Bylaws.

D. Management Development and Succession Planning

The Chief Executive Officer shall at least annually report to the Board on his or her assessment of the performance and development of the Executive Officers. The Board shall meet in executive session with the Chief Executive Officer at least once each year regarding succession of the Chief Executive Officer and the other Executive Officers and, with the recommendation of the Chief Executive Officer, identify potential successor candidates for these roles and assesses their readiness. The Board shall maintain a contingency plan for the appointment of an acting Chief Executive Officer in the event of the current Chief Executive Officer's inability or unavailability to serve.

In addition, the Nominating and Corporate Governance Committee shall report periodically to the Board regarding succession planning with respect to the office of the Chief Executive Officer and any other Executive Officers as may be determined by the Board.

E. Board Meetings

❖ Frequency and Conduct of Meetings

The Board shall meet at least four times a year. Additional meetings may be scheduled as deemed necessary or appropriate. The Chairperson of the Board and the Chief Executive Officer shall, in consultation with the Chief Legal Officer, prepare an annual schedule of meetings for the Board and the standing Committees thereof. The Board shall address certain matters at least annually, which shall include reviewing the Company's (i) strategic plan and principal current and future risk exposures; (ii) strategic objectives; (iii) business and financial performance for the prior year, including a review of the achievement of strategic objectives; and (iv) compliance with applicable law and listing standards.

The Chairperson of the Board shall chair all meetings of the Board unless not in attendance, in which case such meetings shall be chaired in the manner set forth in the Bylaws.

The Independent Directors shall meet at least twice each year in executive session without any members of the Company's management, whether or not they are Directors. In at least one of such executive sessions, the agenda for the meeting shall include an evaluation of the performance of the Chief Executive Officer (which evaluation shall be communicated to the Chief Executive Officer by the Chairperson of the Compensation Committee).

Upon reasonable notice to the other Independent Directors, any Independent Director may call for an executive session, with or without the presence of any member of executive management, if he or she deems it necessary or appropriate. In such circumstances, the Independent Director calling the executive session shall consult the Chairperson as to the time, location and agenda for such executive session.

❖ Agenda

The Chairperson of the Board, in consultation with the Chief Executive Officer, shall establish an agenda for each meeting of the Board, which may include matters additional to those contemplated by the annual schedule of meetings of the Board. Directors may suggest the addition of any matter to a

meeting agenda. Each Director may also raise at any meeting or executive session any subject that is not on the agenda for that meeting or executive session.

❖ **Information to be Distributed Prior to Meetings**

Insofar as practicable, information to inform the Directors about the Company's business, performance and prospects and regarding recommendations for action by the Board shall be made available to the Board a reasonable period of time before meetings. Information should be relevant, concise and timely. Requests for action by the Board should include the recommendation of management and be accompanied by any historical or analytical data that may be necessary or useful to the Directors in making a determination as to the advisability of the matter.

❖ **Presentations**

Materials regarding presentations on specific subjects shall generally be sent to the members of the Board in advance so that the Board's meeting time may be conserved and discussion time focused on questions that Directors may have. Where time or circumstances prohibit advance delivery of materials, the Chairperson of the Board or his or her designee shall provide advance notice of the subject matter and the principal issues involved through an oral communication in advance of the meeting, followed by a complete presentation and discussion of the matter at the meeting.

❖ **Resolutions**

Insofar as is practicable, the text of resolutions to be submitted to the Board for approval shall be distributed in advance of the meeting at which they will be considered.

❖ **Minutes**

The Secretary or an Assistant Secretary of the Company shall record minutes of all meetings of the Board and stockholders. In the absence or incapacity of the Secretary or an Assistant Secretary, the Chairperson of the Board may designate a Director, the Chief Legal Counsel or outside counsel for the Company to record the minutes of meetings of the Board or stockholders.

With respect to any matter, a Director voting against a proposal may ask to have his or her dissent recorded in the minutes of the meeting, and such dissent shall be so recorded.

F. Access to Management, Management Information and Counsel

Directors shall have free access to management and management information. Management shall be responsive to requests for information from members of the Board. The Board encourages the Chief Executive Officer to invite members of management to make presentations at meetings of the Board in order to provide particular insights into aspects of the Company's business or to provide individuals with exposure to the Board for purposes of Officer development. Directors may suggest possible guests to the Chief Executive Officer.

The Board, the Committees thereof and the Independent Directors as a group shall be entitled, at the expense of the Company, to engage such independent legal, financial or other advisors as they deem appropriate, without consulting or obtaining the approval of any Executive, with respect to any matters subject to their respective authority.

G. Board Interaction with Institutional Investors, the Press and other Constituencies

The Board believes that management speaks for the Company. Directors may, from time to time, be contacted by institutional investors, other stockholders, sellers of businesses or merger partners, governmental or community officials, analysts or the press, and asked to comment on or discuss the business of the Company. While ensuring their ability to perform their duties in compliance with their fiduciary obligations, Directors are encouraged to refrain from communicating with any of the foregoing without prior consultation with the Chief Executive Officer or the Chief Financial Officer, and, with respect to any inquiry by any government official, the Chief Legal Officer of the Company. Where comments are appropriate or necessary from the Board, the Board may designate one of the non-management directors as spokesperson and, in the absence of such designation, the Chairperson of the Board shall service as spokesperson.

H. Committees of the Board

❖ Committee Structure

There are currently four standing Committees of the Board: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, and the Compliance and Regulatory Affairs Committee. From time to time, the Board may designate *ad hoc* committees in conformity with the Company's Bylaws. Each standing Committee shall have the authority and responsibilities delineated in the Company's Bylaws, the resolutions creating them, and any applicable charter, including without limitation, authority to engage consultants, independent legal counsel and other advisors as deemed necessary. The Board shall have the authority to disband any *ad hoc* or standing Committee when it deems it appropriate to do so, provided that the Company shall at all times have Audit, Compensation, Nominating and Corporate Governance, and Compliance and Regulatory Affairs Committees, and any such other committees as may be required by applicable law or listing standards.

Committees and their Chairpersons shall be appointed by the Board annually, on recommendation of the Nominating and Corporate Governance Committee in consultation with the Chairperson of the Board. In addition, the Nominating and Corporate Governance Committee shall consider, among other factors, length of service and rotation of committee assignments when recommending the assignment of Directors to Committees and chairpersons of Committees. The members of the Audit, Compensation and Nominating and Corporate Governance Committees shall also at all times meet the independence and other requirements of applicable law and listing requirements. In addition, the majority of the members of the Compliance and Regulatory Affairs Committee shall be determined to be independent. All members of the Audit Committee and the Compensation Committee shall meet the specific requirements of the SEC and NYSE that apply to members of those Committees. Members of the Audit Committee may not simultaneously serve on the audit committees of more than two other public companies. In appointing Committee members, the

Board shall consider rotating membership from time to time in accordance with any policies established or recommended in that regard by the Nominating and Corporate Governance Committee.

Each standing Committee shall have a written charter, which shall be approved by the Board and state the purpose of such Committee. Committee charters shall be reviewed not less frequently than annually to reflect the activities of each of the respective Committees, changes in applicable law or regulation and other relevant considerations, and proposed revisions to such charters shall be approved by the Board.

❖ **Committee Meetings**

The Chairpersons of the various Committees, in consultation with their Committee members, shall determine the frequency and length of Committee meetings; provided, however, that each Committee shall meet not less frequently than three (3) times a year. The Chairperson of each Committee, in consultation with the appropriate Executive Officers, will establish the agenda for each Committee meeting. Committee members and other Directors may suggest the addition of any matter to the agenda for any Committee meeting upon reasonable notice to the Committee Chairperson.

To the extent practicable, information regarding matters to be considered at Committee meetings shall be distributed to Committee members a reasonable period of time before such meetings. The Chairperson of each Committee (or a designee) shall report on the activities of the Committee to the Board following Committee meetings.

I. Compensation of the Board

The Nominating and Corporate Governance Committee is charged with the responsibility of reviewing the compensation of the Board and recommending changes thereto to the Board from time to time. In this regard, the Nominating and Corporate Governance Committee may engage the services of a compensation consultant to advise the Nominating and Corporate Governance Committee periodically on the status of the compensation of the Board in relation to other similarly situated companies.

All Independent Directors are reimbursed for their reasonable travel expenses related to attending Board, Committee or Company business meetings. Alternatively, the Company can make the travel arrangements.

The form and amount of Director compensation and perquisites shall be reviewed by the Nominating and Corporate Governance Committee and recommended to the Board in accordance with the principles contained in the Nominating and Corporate Governance Committee's charter or any related policies, and the Nominating and Corporate Governance Committee shall review the form and amount of such compensation periodically as provided in its charter. The Board believes that an alignment of Director interests with those of stockholders is important and has established stock ownership guidelines applicable to Directors, which stock ownership guidelines are reviewed by the Nominating and Corporate Governance Committee on an annual basis.

J. Director Orientation and Education

The Board believes that it is in the best interest of the Company and its stockholders to (i) provide an orientation to newly elected Directors and (ii) provide on-going education and training to Directors, in order to further the competency and productivity of Directors and further promote the Company's commitment to sound corporate governance and decision-making. In this regard, the Nominating and Corporate Governance Committee shall recommend to the Board for adoption a Director Education Policy (the "Director Education Policy") to put forth the orientation and on-going education and training requirements of Directors. The Company will make an annual education allowance available to each Director in an amount deemed sufficient for compliance with the Director Education Policy, with the amount of such annual allowance determined by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee shall review the Director Education Policy at least annually and shall, as necessary or appropriate, recommend revisions to the Board to ensure it meets the expectations of the Board and other relevant stakeholders.

III. Revisions to these Governance Guidelines

Each year, the Nominating and Corporate Governance Committee shall reevaluate these Guidelines and recommend to the Board such revisions as it deems necessary or appropriate for the Board to discharge its responsibilities more effectively.
