

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 of Lumber Liquidators Holdings, Inc. (the “Company”). The Guidelines, together with the charters of the committees established by the Board of Directors (the “Committees”), provide a framework and context for the governance of the Company and its direct and indirect subsidiaries (collectively, the “Subsidiaries”).

I. Responsibilities of the Board of Directors

The Board of Directors, 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 of Directors selects the Chief Executive Officer and certain other members of the Company’s executive management (“Executive Officers”), who are charged with directing the Company’s business. Executive Officers shall include the Chief Executive Officer, the Chief Legal Officer, the Chief Compliance Officer, the Chief Financial Officer and such other officers as are designated by the Board of Directors. The Board of Directors shall further designate those officers that are subject to Section 16 of the Securities Exchange Act of 1934, who may or may not be designated an Executive Officer. The Board of Directors also appoints members of executive management to serve as directors on the boards of directors of its direct subsidiaries.

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

- ❖ Evaluating the performance of the Company and its executive management, which includes:
 - overseeing the conduct of the Company’s business to evaluate whether it is being effectively managed, including through regular meetings of the outside Directors (*i.e.*, Directors who are not employees of the Company or of its subsidiaries, regardless of their independence) outside the presence of management; and
 - selecting, regularly evaluating and planning for the succession of the Chief Executive Officer and such other members of executive management as the Board of Directors deems appropriate;
- ❖ Reviewing and approving the Company’s budget and operating plans;
- ❖ Reviewing the Company’s strategic plans and objectives, including the principal risk exposures of the Company and the Subsidiaries;
- ❖ Providing advice and counsel to the Chief Executive Officer and to other members of executive management of the Company;

- ❖ 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 of Directors 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 of Directors;
- ❖ 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 of Directors and its Committees, as well as selecting and recommending to stockholders for election an appropriate slate of candidates for the Board of Directors.

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. Directors are expected to attend all or substantially all meetings of the Board of Directors and any Committees of the Board of Directors 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 of Directors. An alignment of Director interests with those of stockholders is important, and as such Directors are encouraged to own securities of the Company.

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 of Directors

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 of Directors and report to the full Board of Directors 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 of Directors may not serve on the boards of directors of more than two other for-profit public companies. A Director shall provide advance notice to the Chairperson of the Board of Directors of his or her acceptance of an invitation to serve on the board of directors of any other company.

The Board of Directors is responsible for selecting candidates for membership on the Board of Directors and for extending invitations to join the Board of Directors 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 of Directors recognizes the importance of soliciting new candidates for membership on the Board of Directors and that the needs of the Board of Directors, 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 of Directors. Consistent with its charter, the Nominating and Corporate Governance Committee is responsible for screening candidates (in consultation with the Chairperson of the Board of Directors and the Chief Executive Officer), for establishing criteria for nominees and for recommending to the Board of Directors a slate of nominees for election to the Board of Directors at the Annual Meeting of Stockholders. Final approval of any candidate shall be determined by the full Board of Directors.

Each Director's continuation on the Board of Directors 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 of Directors 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 of Directors 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 of Directors that results from an increase in the number of directors, from the death, disability, resignation, disqualification, removal of any director or from any other cause may, at the discretion of the Board of Directors 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 of Directors, taking into consideration the recommendation of the Nominating and Corporate Governance Committee.

If any of the outside Directors changes his or her employer, significantly changes his or her position with an employer or significantly changes his or her responsibilities as a director, consultant or otherwise, the Director should offer to resign from the Board of Directors. At such time the Board of Directors will consider the outside Director's offer to resign and whether to accept the resignation based on the circumstances. Directors who are employees of the Company are expected to tender their resignation from the Board of Directors at the same time they cease to be an employee of the Company. The Board of Directors may also appoint a qualified individual to fill a vacancy on the Board of Directors, and the appointed Director will serve until the next Annual Meeting of Stockholders.

B. *Annual Self-Evaluation*

The Board of Directors 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. In doing so, the Nominating and Corporate Governance Committee may choose to benchmark the practices of other boards of directors; circulate surveys, questionnaires and evaluation forms to Directors; and use such other methods as it may deem helpful and appropriate in order to assess the effectiveness of the Board of Directors. At the conclusion of this process, the Chairperson of the Nominating and Corporate Governance Committee shall report the Nominating and Corporate Governance Committee's conclusions to the Board of Directors, and may make recommendations to the Chairperson of the Board of Directors regarding changes that the Nominating and Corporate Governance Committee deems appropriate for consideration by the full Board of Directors.

C. *Offices of Chairperson of the Board of Directors and Chief Executive Officer*

The Chairperson of the Board of Directors shall be elected on an annual basis by the Board of Directors from the Company's pool of shareholder elected, independent, non-employee directors to serve until the next Board meeting following the Annual Meeting of Stockholders for a period commensurate with his or her term as director. In addition to the duties of all Board members, the Chairperson shall be responsible for the following functions: (i) timing and agendas for Board meetings; (ii) nature, quantity and timing of information provided to the independent directors by the Company's management; (iii) retention of counsel or consultants who report directly to the Board; (iv) implementation of corporate governance policies and procedures, including assisting the chairpersons of the various Board committees as requested; (v) receiving reports from the Nominating and Corporate Governance Committee regarding compliance with and implementation of corporate governance policies; and (vi) evaluating, along with Compensation Committee, the performance of the Chief Executive Officer. The Chairperson will share any reports prepared by Board committees with the full Board as appropriate.

If serving on the Board of Directors, the person holding the office of Chief Executive Officer shall offer to resign from the Board of Directors at the same time that his or her service in such capacity ends. The Chief Executive Officer may not be a member of the board of directors of more than one other public company.

The Nominating and Corporate Governance Committee shall report periodically to the Board of Directors regarding succession planning with respect to the office of the Chief Executive Officer and other members of executive management as may be determined by the Board of Directors.

D. *Board Meetings*

❖ **Frequency and Conduct of Meetings**

The Board of Directors shall meet at least four times a year. Additional meetings may be scheduled as necessary or appropriate in light of circumstances. The Chairperson of the Board of Directors and the Chief Executive Officer shall, in consultation with the Chief Legal Officer, prepare an annual schedule of meetings for the Board of Directors and the standing Committees thereof. The Board of Directors 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 of Directors shall chair all meetings of the Board of Directors unless not in attendance, in which case such meetings shall be chaired in the manner set forth in the Bylaws.

Outside Directors shall meet in executive session with the Chief Executive Officer at least once each year to discuss matters relating to management development and management succession (including the Chief Executive Officer's recommendation as to a successor should he or she be unexpectedly disabled), as well as to evaluate members of executive management.

In addition, 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. 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 outside Directors, any outside 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 outside 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 of Directors, in consultation with the Chief Executive Officer shall establish an agenda for each meeting of the Board of Directors, which may include matters additional to those contemplated by the annual schedule of meetings of the Board of Directors. 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 of Directors shall be made available to the Board of Directors a reasonable period of time before meetings. Information should be relevant, concise and timely. Requests for action by the Board of Directors 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 of Directors in advance so that the Board of Directors' 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 of Directors 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

The Board of Directors has adopted guidelines for the adoption of resolutions, which are included as Annex I. Insofar as is practicable, the text of resolutions to be submitted to the Board of Directors 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 of Directors and stockholders. In the absence or incapacity of the Secretary or an Assistant Secretary, the Chairperson of the Board of Directors may designate a Director, the Chief Legal Counsel or outside counsel for the Company to record the minutes of meetings of the Board of Directors 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.

E. *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 of Directors. The Board of Directors encourages the Chairperson of the Board of Directors to invite members of management to make presentations at meetings of the Board of Directors in order to provide particular insights into aspects of the Company's business or to provide individuals with exposure to the Board of Directors for purposes of management development. Directors may suggest possible guests to the Chairperson of the Board of Directors.

The Board of Directors, the Committees thereof and the outside 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 officer of the Company, with respect to any matters subject to their respective authority.

F. *Board of Directors' Interaction with Institutional Investors, the Press and other Constituencies*

The Board of Directors 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. Directors are expected 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, with the Chief Legal Officer of the Company.

Directors may also, from time to time, discuss the Company's business with customers, suppliers and other business partners. While Directors are free to engage in these discussions, they should advise appropriate members of executive management as soon as possible following such discussions, and should not disclose any material non-public information concerning the Company. Among other considerations, such disclosures may violate applicable law. Questions about whether

certain information may be disclosed should be directed to the Chief Legal Officer. In the event that a Director inadvertently discloses information that may be material and non-public, he or she should immediately so advise the Chief Legal Officer.

G. *Committees of the Board of Directors*

❖ **Committee Structure**

There are currently four standing Committees of the Board of Directors: 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 of Directors 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 of Directors 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 such other committees as may be required by applicable law or listing standards.

Committees and their Chairpersons shall be appointed by the Board of Directors annually at the Annual Meeting of the Board of Directors, on recommendation of the Nominating and Corporate Governance Committee in consultation with the Chairperson of the Board of Directors. 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 of Directors 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 full Board of Directors 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 full Board of Directors.

❖ **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 appropriate Company 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 shall report on the activities of the Committee to the Board of Directors following Committee meetings.

H. *Compensation of the Board of Directors*

The Nominating and Corporate Governance Committee is charged with the responsibility of reviewing the compensation of the Board of Directors and recommending changes thereto to the full Board of Directors 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 of Directors in relation to other similarly situated companies.

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

The form and amount of Director compensation and perquisites shall be determined by the Nominating and Corporate Governance Committee in accordance with the principles contained in its 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 of Directors continues to believe that an alignment of Director interests with those of stockholders is important. The Nominating and Corporate Governance Committee shall be sensitive to questions of independence that may be raised where Directors' fees and perquisites exceed customary levels for companies of comparable scope and size.

I. *Director Orientation and Education*

New Directors must attend, within six (6) months of joining the Board of Directors, a program specifically designed as directors' education. Current directors shall attend a similar program no later than the end of their current term (if standing for reelection). In addition, new directors shall participate in an orientation program, which shall generally be conducted within three months of the Annual Meeting of Stockholders at which new Directors are elected. The agenda for the orientation program shall be determined by the Chairperson of the Board of Directors, in consultation with the Chief Executive Officer, the Chief Financial Officer, the Chief Legal Officer and the outside Directors, who may consult as appropriate with the chairpersons of the standing Committees of the Board of Directors. The orientation program shall address the Company's strategic plans, significant risk exposures, compliance programs (including its Code of Business Conduct and Ethics) and may include presentations by the Company's executive management, internal auditors and independent auditors, as well as one or more visits to the Company's headquarters or other operating sites or facilities. In addition, the Nominating and Corporate Governance Committee, in coordination with the Chief Compliance Officer and the Chief Legal Officer will develop and implement an ongoing annual education program for all directors.

III. Revisions to these Governance Guidelines

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