

## **BANDAG, INCORPORATED**

### **AMENDED AND RESTATED CORPORATE GOVERNANCE GUIDELINES**

**(As Amended, March 15, 2005)**

The Nominating and Corporate Governance Committee of the Board of Directors of Bandag, Incorporated, an Iowa corporation (the “Company”), developed and recommended to the Board this set of corporate governance guidelines applicable to the Company (these “Guidelines”). Acting on the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors adopted these Guidelines to assist the Board and its committees in fulfilling their duties and responsibilities and to promote effective and efficient corporate governance that promotes the best interests of the Company and its shareholders. The Board of Directors will review and, if appropriate, revise these Guidelines from time to time.

These Guidelines are in addition to and are not intended to change or interpret any federal or state law or regulation, the rules of the Securities and Exchange Commission (“SEC”), the listing standards of the New York Stock Exchange (“NYSE”) or the Chicago Stock Exchange (“CHX”), the Iowa Business Corporation Law, or the Company’s Restated Articles of Incorporation, as amended from time to time (“Articles of Incorporation”), or By-laws.

In accordance with the NYSE’s listing standards: (a) these Guidelines shall be posted on the Company’s website, along with the charters for the Board’s most important committees, including the Audit Committee, the Nominating and Corporate Governance Committee and the Management Continuity and Compensation Committee; and (b) the Company’s annual report to shareholders shall state that the foregoing information is available on the Company’s website and in print to any requesting shareholder.

#### **Director Responsibilities**

In addition to those duties and responsibilities otherwise required by applicable law, rule or regulation, the listing requirements of the NYSE or the CHX, and the Company’s Articles of Incorporation and By-laws, each of the Company’s directors is expected to:

1. Maintain high ethical standards and remain mindful at all times of his or her duties and responsibilities to the Company and its shareholders, while also considering the interests of the Company’s other stakeholders under appropriate circumstances. Directors must comply with the Company’s Global Ethics Policy.
2. Generally understand in reasonable detail the Company’s business, operations, budget, finances, financial statements, competition, prospects, risks and concerns, as well as general economic, industry and market trends and conditions that have affected the Company in the past, are affecting the Company currently or will likely affect the Company in the future.
3. Provide the Board of Directors and the Company’s management with objective perspectives on issues and opportunities facing the Company. Provide the Board of Directors and the Company’s management with good counsel and judgment and candid, open and honest feedback and evaluation.

4. Use his or her best efforts to personally attend (either in person or by telephone) all meetings of the Board of Directors and all meetings of committees on which such director serves.
5. Be prepared to participate actively and exercise his or her informed business judgment in a manner that he or she reasonably believes to be in the best interests of the Company and its shareholders at all meetings of the Board of Directors and all meetings of committees on which such director serves. When background and explanatory materials are distributed prior to Board of Directors or committee meetings, he or she should review such materials carefully and in advance, and he or she should request additional information when deemed necessary for a further understanding of the matters addressed by the materials. Unless the director has knowledge that makes reliance unwarranted, a director may rely on information, opinions, reports or statements prepared or presented by an officer or employee of the Company or other expert or adviser if the director believes in good faith that such person is reliable and competent in the matters presented or if such matters are within such person's professional or expert competence.

### **Board Composition and Selection; Director Independence; Miscellaneous**

#### *Board Size*

The size and composition of the Board of Directors will be set so that the Board will possess, in the aggregate, the strategic, managerial and financial skills and experience necessary to fulfill its duties and to achieve its objectives. The Company's By-laws currently provide that the Board of Directors shall consist of nine directors. The Board of Directors believes that nine is an appropriate number of directors based on the Company's present circumstances. The specific number of Board members will be reviewed from time to time and adjusted as necessary and appropriate to promote the best overall interests of the Company and its shareholders.

#### *Board Leadership*

The Board of Directors shall elect a Chairman. Under the oversight of the Board of Directors, the Company's Chairman of the Board of Directors, who is the Company's Chief Executive Officer ("CEO"), shall direct the Company's employees, managers and officers in conducting the Company's business. The Chairman of the Board shall preside at all meetings of the Board of Directors and shareholders. The Chairman of the Board shall have primary responsibility for scheduling meetings of the Board of Directors, calling special meetings when necessary, setting or proposing the agenda for each meeting, and leading the conduct of Board meetings, as well as for carrying out such other duties as are specified for such office in the Company's By-laws. This responsibility does not, however, diminish the responsibilities of each director to raise appropriate agenda items, or to propose meetings. In the absence or disability of the Chairman of the Board, the Vice Chairman of the Board of Directors, if there then be one, shall preside at all meetings of the Board of Directors and shareholders and shall otherwise perform the duties of the Chairman of the Board with respect to meetings of the Board of Directors and shareholders.

### *Selection of Board Members*

The Nominating and Corporate Governance Committee of the Board of Directors shall be responsible for establishing criteria for selecting potential directors, taking into account all factors it considers appropriate, which may include strength of character, mature judgment, career specialization, relevant technical skills or financial acumen, diversity of viewpoint and industry knowledge. The Nominating and Corporate Governance Committee will look for individuals who have displayed the highest personal and professional ethics, integrity and values and sound business judgment. The Nominating and Corporate Governance Committee shall identify individuals believed to be qualified candidates to serve on the Board of Directors and recommend to the Board candidates for all directorships to be filled by the Board or by the shareholders at an annual or special meeting.

### *Independence of Directors*

#### General Matters Respecting Director Independence.

A majority of the directors shall be independent directors under the applicable rules of the NYSE and the CHX.

Directors who do not meet the NYSE's and the CHX's independence standards also make valuable contributions to the Board of Directors and to the Company by reason of their experience and wisdom.

To be considered independent under the NYSE's listing standards, the Board of Directors must affirmatively determine that a director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). In making its determination, the Board shall broadly consider all relevant facts and circumstances. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. When assessing the materiality of a director's relationship with the Company, the Board will consider the issue not merely from the standpoint of the director, but also from that of persons or entities with which the director has an affiliation.

A director of the Company who meets the "Categorical Standards" set forth below shall be presumed to be "independent". In addition, a director who is a member of the Company's Audit Committee must meet the heightened criteria set forth below to be considered "independent" for the purposes of membership on the Audit Committee. If the relationship of a director falls within the Categorical Standards, then the Company shall state in its proxy statement that the director meets the Categorical Standards, without describing the particular aspects of the relationship between the director and the Company.

If the relationship of a director does not fall within the Categorical Standards, then the determination of whether the relationship is material or not, and therefore whether the director would be independent or not, shall be made by the Board of Directors. In the event that a director who has a business or other relationship that does not fit within the

Categorical Standards described above is determined to be independent, the Company shall disclose the basis for such determination in the Company's proxy statement.

The Categorical Standards should be interpreted in the context of all applicable laws and the Company's other corporate governance documents, and are intended to serve as a flexible framework within which the Board of Directors may conduct its business. Categorical Standards are subject to modification from time to time, and the Board shall be able, in the exercise of its discretion, to deviate from these guidelines from time to time, as the Board may deem appropriate and as required or permitted by applicable laws and regulations. The Company will publicly disclose the Categorical Standards.

#### Definition of Immediate Family Member.

For purposes of the Categorical Standards, an "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home. When considering the look-back provisions below, the Company need not consider individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated.

#### Categorical Standards for Directors.

A director who at all times during the previous three years has met all of the following categorical standards (the "Categorical Standards") shall be presumed to be independent:

1. The Company has not employed the director, and has not employed (except in a non-executive officer capacity) any of his or her immediate family members. Employment as an interim Chairman or Chief Executive Officer or other executive officer shall not disqualify a director from being considered independent following that employment.
2. Neither the director, nor any of his or her immediate family members, has received more than \$100,000 during any twelve-month period in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service). Compensation received by a director for former service as an interim Chairman or Chief Executive Officer or other executive officer need not be considered in determining independence under this test. Compensation received by an immediate family member for service as a non-executive employee of the Company need not be considered in determining independence under this test.
3. Neither the director, nor one of his or her immediate family members, is a current partner of a firm that is the Company's internal or external auditor; the director is not a current employee of such firm; the director does not have an immediate family member that is a current employee of such a firm participating in the firm's audit, assurance or tax compliance (but excluding tax planning) practice; nor was the director or

one of his or her immediate family members within the last three years, a partner or employee of such a firm that personally worked on the Company's audit within that time.

4. Neither the director, nor any of his or her immediate family members, has been part of an "interlocking directorate" in which any of the Company's present executives serve on the compensation (or equivalent) committee of another company that employs the director or any of his or her immediate family members in an executive officer capacity.

5. Neither the director, nor any of his or her immediate family members (except in a non-executive officer capacity), has been employed by a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.<sup>1</sup>

6. Neither the director, nor any of his or her immediate family members, has had a personal services contract with the Company, its Chairman and Chief Executive Officer or other executive officer, or any affiliate of the Company.

7. Neither the director, nor any of his or her immediate family members, has been an employee, officer or director of a foundation, university or other non-profit organization to which the Company gives directly, or indirectly through the provision of services, more than \$100,000 per annum or 10% of the total annual donations received (whichever is less).

8. Neither the director, nor any of his or her immediate family members, has been employed by (or affiliated with) a significant lender of the Company. For the purposes of this categorical standard, a lender shall be considered significant if the credit extended is more than 10% of the consolidated assets of the Company.

9. The director is an executive officer of an entity which is indebted to the Company, or to which the Company is indebted, and the total amount of either's indebtedness to the other is less than 10% of its own total consolidated assets, measured as of the last fiscal year-end.

10. Neither the director, nor any of his or her immediate family members, is or is affiliated with a firm that is an attorney, investment bank, consultant or similar advisor to the Company.

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<sup>1</sup> In applying this test, both the payments and the consolidated gross revenues to be measured shall be those reported in the last completed fiscal year. The look-back provision for this test applies solely to the financial relationship between the Company and the director or immediate family member's current employer; the Company need not consider former employment of the director or immediate family member. Charitable organizations shall not be considered "companies" for purposes of this test, provided however that the Company shall disclose in its annual proxy statement any charitable contributions made by the Company to any charitable organization in which a director serves as an executive officer if, within the preceding three years, contributions in any single fiscal year exceeded the greater of \$1 million, or 2% of such charitable organization's consolidated gross revenues.

### Standards for Audit Committee Members.

In addition to satisfying the criteria set forth above, directors who are members of the Company's Audit Committee will not be considered independent for purposes of membership on the Audit Committee unless they satisfy the following criteria:

1. A director who is a member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the Board, or any other Board committee, accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any subsidiary thereof, provided that, unless the rules of the New York Stock Exchange provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company (provided that such compensation is not contingent in any way on continued service).

2. A director, who is a member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the Board, or any other Board committee, be an affiliated person of the Company.

3. A director, who is a member of the Audit Committee may not simultaneously serve on the audit committees of more than two other public companies.

### *Resignation Policy and Policy on Serving on Other Boards*

As a general policy, the CEO and other executive officers of the Company who are directors will resign from the Board of Directors upon the termination of their employment with the Company. However, the Board of Directors may ask the former CEO to remain on the Board if it believes that an exception to this policy is in the best interests of the Company and its shareholders. A director who experiences a significant change in status (including retirement or a significant decrease in job responsibilities) from that when that director was most recently elected to the Board of Directors shall promptly inform the Board of such change in status and offer his or her resignation as a director to the Board for the Board's consideration.

Directors should not serve on more than four other boards of directors of public companies in addition to the Company's Board of Directors. Current positions in excess of this limit may be maintained unless the Board of Directors determines that doing so would impair the director's service on the Company's Board.

### *New Board Positions*

Directors are expected to inform the Chairman of the Board of Directors and the Chairperson of the Nominating and Corporate Governance Committee of any public company directorships that they have been offered before accepting that directorship.

## **Shareholder Communications with Board of Directors**

Shareholders may communicate with the Board of Directors (or individual directors serving on the Board of Directors) by sending written communications, addressed to the Board of Directors as a group or an individual director, *care of* the Secretary of the Company at 2905 North Highway 61, Muscatine, Iowa 52761-5886, who will ensure that this communication is delivered to the Board of Directors or the specified director, as the case may be.

## **Executive Sessions of the Board; Communication with Non-Management Directors**

The non-management directors (“non-management” directors are directors who are not officers, as that term is defined in Rule 16a-1(f) promulgated under the Securities Exchange Act of 1934, of the Company) shall meet at regularly scheduled meetings without members of the Company’s management being present. The Chairpersons of the Audit Committee, Nominating and Corporate Governance Committee and Management Continuity and Compensation Committee shall each preside as the chair at such meetings on a continuous rotating basis in the following order: Audit Committee, Nominating and Corporate Governance Committee and Management Continuity and Compensation Committee.

As noted above, the Chairpersons of the Audit Committee, Nominating and Corporate Governance Committee and Management Continuity and Compensation Committee rotate responsibility for chairing the executive sessions of non-management directors. Interested parties may make their concerns known to the non-management directors by writing to:

Non-Management Directors  
c/o Assistant to the Board of Directors  
Bandag, Incorporated  
2905 North Highway 61  
Muscatine, Iowa 52761-5886

In addition to regularly scheduled meetings of the non-management directors, the independent directors (namely, those directors who the Board of Directors has determined to be independent pursuant to applicable laws, rules or regulations) shall meet without the non-independent directors present at least once a year.

## **Board Committees**

The Board of Directors shall at all times have an Audit Committee, Nominating and Corporate Governance Committee and a Management Continuity and Compensation Committee, each comprised solely of independent directors. In addition, the Board of Directors shall at all times have an Executive Committee, which need not be comprised solely of independent directors. The Board of Directors shall evaluate and determine the circumstances under which it will form or disband other committees.

In addition to the requirement that a majority of the Board of Directors satisfy the independence standards discussed above, members of the Audit Committee must also satisfy any additional independence requirements imposed by the NYSE, the CHX or the SEC. Directors

may not simultaneously serve on the audit committee of more than two public companies in addition to serving on the Company's Audit Committee.

The Nominating and Corporate Governance Committee shall recommend members of the Board of Directors to serve as the Chairperson of the committees of the Board of Directors. In fulfilling this responsibility, the Nominating and Corporate Governance Committee shall, as appropriate, consult with the Chairman of the Board of Directors. The Board of Directors shall approve the Chairpersons. The Chairpersons will chair all regular sessions of their respective committees and, in consultation with the Chairman of the Board of Directors, set the agendas for committee meetings.

### **Committee Assignment and Rotation**

The Nominating and Corporate Governance Committee shall recommend members of the Board of Directors to serve on the committees of the Board. In fulfilling this responsibility, the Nominating and Corporate Governance Committee shall, as appropriate, consult with the Chairman of the Board of Directors. The Nominating and Corporate Governance Committee shall monitor and recommend the purpose, structure and operations of the various committees of the Board of Directors, the qualifications and criteria for membership on each committee of the Board and, as circumstances dictate, make any recommendations regarding periodic rotation of directors among the committees and the imposition of any term limitations of service on any Board committee.

### **Number and Scope of Board and Committee Meetings**

The Board of Directors will meet at least five (5) times per year, including immediately before and immediately after the Annual Shareholders Meeting. Committees of the Board will meet as provided for in their charters.

### **Director Compensation**

Non-employee directors shall receive reasonable compensation for their services, as may be determined from time to time by the Nominating and Corporate Governance Committee. Compensation for non-employee directors shall be consistent with the market practices of other similarly situated companies but shall not be at a level or in a form that would call into question the Board of Directors' objectivity. The Company believes that the compensation paid to the non-employee directors should be competitive and should fairly compensate the directors for their time and efforts dedicated to the Board of Directors and the committees on which they serve and/or chair.

In order to help further align the economic interests of non-employee directors with the economic interests of the Company's shareholders, a portion of non-employee director compensation may be in the form of the Company's common stock and/or rights to acquire the Company's common stock.

Directors who are employees shall receive no additional compensation for serving as directors.

Non-employee directors who are members of the Audit Committee may not accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or an affiliate of the Company other than in his or her capacity as a member of the Audit Committee, the Board of Directors or any other committee of the Board.

### **Director Access to Management and Independent Advisors**

The Board of Directors is expected to be highly interactive with members of the Company's management, and the Board and its individual members shall have access to individual executive officers and other senior management of the Company. The Company shall maintain an environment that permits senior management to contact Board members directly, as appropriate.

It is the policy of the Board of Directors that executive officers and other members of senior management who report directly to the CEO be present at Board and/or committee meetings at the invitation of the Board or committee members, as appropriate, and as permitted by applicable rules or policies of the Company and the applicable committee charter. As appropriate, the Board of Directors encourages such executive officers to include in discussions at Board meetings managers and other employees who (i) can provide insight into the matters being discussed because of their functional expertise and/or personal involvement in such matters and/or (ii) are individuals with high potential whom such executive officers and senior management believe the directors should have the opportunity to meet and evaluate.

As necessary and appropriate, the Board of Directors is authorized to consult with independent counsel and other advisers, without consulting management, including sole authority to approve the fees and other retention terms of such counsel or advisers. The Audit Committee shall have sole authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties, including sole authority to approve the fees and other retention terms of such counsel or advisers. The Nominating and Corporate Governance Committee shall have sole authority to retain and terminate any search firm to be used to identify director candidates, including sole authority to approve the search firm's fees and other retention terms. The Management Continuity and Compensation Committee shall have sole authority to retain and terminate compensation consultants to assist the Committee in evaluating executive officer and director compensation plans, policies and programs of the Company, including sole authority to approve the firm's fees and other retention terms.

### **Director Orientation and Continuing Education**

The Board of Directors shall ensure that an orientation program for newly elected directors is implemented and maintained. The Nominating and Corporate Governance Committee shall periodically review the orientation program implemented and maintained by the Board of Directors and make recommendations.

Directors are required to continue educating themselves with respect to domestic and international markets, accounting and finance, leadership, crisis response, industry practices, general management, and strategic planning.

## **Management, Management Succession and CEO Compensation**

The Board of Directors has delegated to the CEO, working with the other executive officers of the Company and its affiliates, the authority and responsibility for managing the business affairs and property of the Company in a manner consistent with the standards of the Company, and in accordance with any specific plans, instructions or directions of the Board.

The CEO shall seek the advice and, in appropriate situations, the approval of the Board of Directors with respect to extraordinary actions to be undertaken by the Company, including those that would make a significant change in the financial structure or control of the Company, the acquisition or disposition of any significant business or the entry of the Company into a major new line of business.

The Board of Directors shall develop and maintain an appropriate succession plan relating to the position of CEO. The Management Continuity and Compensation Committee shall be responsible for regularly reviewing and evaluating such succession plan and shall make recommendations to the Board of Directors about the succession plan.

The CEO shall prepare, on a continuing basis, a short-term succession plan which delineates a temporary delegation of authority to certain officers of the Company, if all or a portion of the executive officers should unexpectedly become unable to perform their duties. The short-term succession plan shall be in effect until the Board of Directors has the opportunity to consider the situation and take action, when necessary.

The Board of Directors shall develop and maintain an appropriate leadership development program for executive officers and key employees. The Management Continuity and Compensation Committee shall be responsible for reviewing and evaluating such leadership development program and shall make recommendations to the Board of Directors about the leadership program.

The Management Continuity and Compensation Committee shall regularly review and approve corporate goals and objectives relevant to CEO and other executive officer compensation. The Management Continuity and Compensation Committee shall evaluate the performance of the CEO and other executive officers in light of those goals and objectives and, based on such evaluation, review and approve the annual salary, bonus, stock options and other benefits, direct and indirect, of the CEO and the other executive officers, other than pension, profit-sharing, 401(k), health and life insurance benefits generally available to all North American salaried employees without discrimination or differences in the level of benefits available to such salaried employees, except differences based on salaries and years of service..

## **Annual Performance Self-Assessment of the Board**

The Board of Directors will conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively. The Nominating and Corporate Governance Committee shall develop and recommend to the Board of Directors for its approval an annual self-evaluation process of the Board and its committees, and it shall oversee the annual self-evaluation of the Board and communicate to the Board the results.

## **Limitation**

Nothing in these guidelines is intended to expand the fiduciary obligations of Board members beyond those provided for under applicable law.