

**CORPORATE GOVERNANCE GUIDELINES  
OF  
HEALTH GRADES, INC.**

The role of the Board of Directors ("Board") of Health Grades, Inc. (the "Company") is to oversee the business and affairs of the Company for the benefit of its stockholders. In addition, the Board considers the interests of its other interested parties, including its employees, customers, suppliers and creditors. The Board has adopted these corporate governance guidelines, as well as committee charters, to provide a framework for the functioning of the Board and Board Committees.

I. Board Composition and Structure

- A. Size of Board. The number of members of the Board generally should range from 5 to 10 members, recognizing that retirements, resignations, and recruiting delays may result, periodically, in the Board consisting, for some transitional period, of a greater or lesser number of directors than the Board may have targeted.
- B. Mix of Directors; "Independent" Directors. A majority of the Board will be independent. A director will be deemed independent if the Board affirmatively determines that the director has no relationship with the Company that would interfere with the director's exercise of independent judgment in carrying out his or her responsibilities. The following guidelines apply to independence determinations:
1. *Per Se Exclusions.* A director will not be deemed independent if:
    - (i) the director was employed by the Company at any time during the past three years;
    - (ii) the director or a family member of the director accepted any compensation from the Company in excess of \$120,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than (a) compensation for Board or Board committee service, (b) compensation paid to a family member who is an employee (other than an executive officer) of the Company, or (c) benefits under a tax-qualified retirement plan, or non-discretionary compensation;
    - (iii) the director is a family member of an individual who is, or at any time during the past three years was, employed by the Company as an executive officer;
    - (iv) the director or a family member of the director is a partner in, or a controlling shareholder or an executive officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than (a) payments arising solely from investments in the Company's securities or (b) payments under non-discretionary charitable contribution matching programs;
    - (v) the director or a family member of the director is employed as an

executive officer of another entity where at any time during the past three years any of the executive officers of the Company serve on the compensation committee of such other entity; or (vi) the director or a family member of the director is a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years. For the purpose of these corporate governance guidelines, "family member" means a person's spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person's home.

2. *Board Determinations.* In connection with relationships other than those listed in subsection (1) above that preclude a determination of independence, the determination of whether the relationship would interfere with the director's independent judgment in carrying out his or her responsibilities shall be made by the Board of Directors, subject to applicable listing standards or legal requirements.
  3. *Additional Audit Committee Membership Requirements.* Audit Committee members may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any Company subsidiary. For the purpose of this paragraph, compensatory fees do not include fees for service on the Board or a Board committee, or 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). In addition, Audit Committee members may not be "affiliated persons" of the Company or any Company subsidiary, as defined in Rule 10A-3 under the Securities Exchange Act of 1934 (the "Exchange Act"). Moreover, Audit Committee members may not have participated in the preparation of the financial statements of the Company or any subsidiary of the Company (other than entities that have ceased to be subsidiaries of the Company) at any time during the preceding three years.
- C. Selection of Directors. In connection with its proxy solicitation relating to the Company's annual stockholders' meeting, the Board recommends a slate of nominees for election by stockholders. In addition, the Board fills vacancies on the Board when necessary or appropriate. The Board's recommendations or determinations are based on the designation of the Nominating and Corporate Governance Committee, taking into account the criteria described below and other factors, including the requirements for Board committee membership. In recommending nominees, the Nominating and Corporate Governance Committee will consider candidates for nomination recommended by a Company stockholder, provided that such stockholder submits the following information to the Corporate Secretary, Health Grades, Inc., 500 Golden Ridge Road, Suite 100, Golden, CO 80401

at least 120 days before the one-year anniversary of the date of mailing of the Company's proxy materials for the prior year's annual meeting of stockholders:

- (1) the name of the candidate and information about the candidate that would be required to be included in a proxy statement under the rules of the SEC;
- (2) information about the relationship between the candidate and the recommending stockholder;
- (3) the consent of the candidate to serve as a director; and
- (4) proof of the number of shares of the Company's common stock that the recommending stockholder owns and the length of time the shares have been owned.

D. Board Membership Criteria. The Board as a whole should collectively possess a broad range of skills, expertise, industry and other knowledge, and business and other experience useful to the effective oversight of the Company's business. A directors past attendance at meetings and participation in and contributions to the activities of the Board are also factors to be considered. In considering candidates for nomination, the Nominating and Corporate Governance Committee may review the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board.

E. Selection of the Chairperson of the Board. Upon the recommendation of the Nominating and Corporate Governance Committee, the directors may elect a Chairperson of the Board from among the directors.

F. Retirement; Resignation

1. *Term Limits.* The Board does not believe that it should establish term limits. Term limits have the disadvantage of causing the loss of the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations, and therefore provide an increasing contribution to the Board as a whole.
2. *Resignation Policy.* Non-management directors who change their primary job responsibilities that they held at the time of their most recent election to the Board will notify the Nominating and Corporate Governance Committee of the change. The Nominating and Corporate Governance Committee will, in its sole discretion, determine whether such change in responsibilities will impair the director's ability to effectively serve on the Board and will advise the Board whether it believes that resignation of the director is required. Management directors will offer to resign from the Board upon their resignation, removal, or retirement as an officer of the Company. The Board will, in its sole discretion, determine whether or not to accept such resignation, provided that, if approved by the Board, such

management director shall only continue to serve as a director after his resignation, removal, or retirement for a transition period of up to one year after the date that he or she ceases to be an executive officer.

- G. Additional Directorships. Directors are encouraged to limit the number of other boards of directors (excluding non-profit boards of directors) on which they serve, taking into account potential meeting attendance, participation and other commitments with respect to these other boards of directors. It is generally advisable to limit outside directorships to three. The Nominating and Corporate Governance Committee and the full Board will take into account the nature of and the time involved in a director's service on other boards of directors in evaluating the suitability of individual director candidates. Every director must seek and receive the consent of the Board prior to accepting an invitation to serve on another corporate board of directors.
- H. Compensation of Non-Employee Directors. Compensation should align directors' interests with the long-term interests of stockholders while not calling into question their objectivity, and the structure of the compensation should be simple, transparent and easy for stockholders to understand.

## II. Board Meetings and Procedures

- A. Board Meetings.
  1. *Number of Meetings; Attendance and Preparation*. The Board holds a minimum of four regularly scheduled meetings per year. Directors are expected to attend all regularly scheduled meetings and to have, prior to the meetings, reviewed all written materials distributed to them in advance.
  2. *Selection of Agenda Items*. The CEO should establish the agenda for Board meetings; however, directors may at any time suggest that particular items be placed on the agenda.
  3. *Distribution of Materials*. The Company distributes written materials, including the agenda, for use at Board meetings sufficiently in advance of meetings to permit meaningful review. It is recognized, however, that under certain circumstances written materials may be unavailable to directors in advance of the meeting. On those occasions in which the subject matter is too sensitive to provide in writing, the CEO may elect to contact each director by telephone in advance of the meeting to discuss the subject and the principal issues the Board will need to consider. The CEO periodically reviews the information flow to Board members to ensure that directors receive the right kind and amount of information in sufficient time to prepare for meetings.
  4. *Attendance of Non-Directors*. Selected senior officers of the Company may attend all or a portion of each Board meeting. Legal counsel and other persons may be invited to attend Board meetings where appropriate.

5. *Executive Sessions of Non-Employee Directors.* Unless they determine that such a meeting is not required, the independent directors will meet in executive session during each of the Board's regularly scheduled meetings, without any management directors and any other members of the Company's management (without limiting the ability of the independent directors to invite members of management to address issues or otherwise respond to questions that the independent directors may have) who may otherwise be present, to (i) evaluate the CEO; (ii) review management succession planning; and (iii) consider such other matters as they may deem appropriate. The independent directors will designate the name of the director who will preside at the executive sessions. The directors may meet in executive session at any time to consider issues that they deem important to address without management present. Following each executive session, the results of the deliberations and any recommendations should be communicated to the full Board.
- B. Access to Senior Management/Independent Advisors. Board members have complete and open access to senior members of management. The CEO invites other key employees to attend Board sessions at which the CEO believes they can meaningfully contribute to Board discussion. The Board, including the independent members of the Board, has the authority, in its discretion, to retain independent advisors.
- C. Confidentiality. The Board believes that maintaining confidentiality of information and deliberations is an imperative.

### **III. Board Duties and Responsibilities**

- A. Oversight. To accomplish its mission to maximize long-term stockholder value, the Board must:
  1. Ensure that the Company operates in a legal, ethical, and socially responsible manner;
  2. Select, evaluate and offer substantive advice and counsel to the CEO and work with the CEO to develop effective measurement systems that facilitate an evaluation of the Company's degree of success in creating long-term economic value for its stockholders;
  3. Review, approve and monitor fundamental financial and business strategies and major corporate actions;
  4. Oversee the Company's capital structure and financial policies and practices;
  5. Assess major risks facing the Company and review options for their mitigation; and
  6. Provide counsel and oversight on the selection, evaluation, development and compensation of executive officers and provide

critical and candid feedback on their successes and failures.

- B. Corporate Governance. The Board reviews and, if it deems appropriate, approves changes to these Corporate Governance Guidelines that have been recommended to the Board by the Nominating and Corporate Governance Committee.
- C. Charters. The Board reviews and, if it deems appropriate, approves changes to the Company's Audit, Compensation Committee and the Nominating and Corporate Governance Committee charters that have been recommended to the Board by such committees.
- D. Assessing Board and Committee Performance. The Board conducts an annual self-evaluation of its performance and an evaluation of each of the Board committees' performance to determine whether it and its committees are functioning effectively. The Board's evaluation is based, in part, on the self-evaluations conducted by each of the committees.
- E. Assessing CEO Performance. The Board believes that the CEO's performance should be evaluated annually and as a regular part of any decision with respect to CEO compensation. The Board has delegated the responsibility to the Compensation Committee to evaluate the CEO's performance in the course of approving CEO salary, bonus, and long-term incentives such as stock and stock option awards. The Compensation Committee is responsible for setting annual and long-term performance goals for the CEO and for evaluating his or her performance against such goals. The Compensation Committee meets annually with the CEO to receive his recommendations concerning such goals and to evaluate his performance against the prior year's goals.
- F. Succession Planning. The Board plans for the succession to the positions of CEO and other executive officers of the Company. To assist the Board, the CEO annually provides the Nominating and Corporate Governance Committee with an assessment of the executive officers and their potential to succeed him or her. The CEO also will provide the Nominating and Corporate Governance Committee with an assessment of persons considered to be potential successors to other executive officer positions and a review of any development plans recommended for such potential successors. The results of these reports will be reported to and discussed with the Board.
- G. Business Conduct and Ethics. The Board believes that, in order to maintain the highest ethical, legal, and socially responsible conduct, the Company should maintain an appropriate code of conduct regarding: (i) honest and ethical conduct, (ii) conflicts of interest, (iii) corporate opportunities, (iv) confidentiality, (v) fair dealing, (vi) protection and proper use of company assets, (vii) full, fair, accurate, timely, and understandable disclosure in the periodic reports, proxy statements and other filings under the Exchange Act that are required to be filed by the Company, (viii) compliance with applicable governmental laws, rules, and regulations and (ix) such other matters as the Board deems appropriate. Such code of conduct also will

include an enforcement mechanism.

#### **IV. Board Committees**

- A. Board Committees; Committee Charters. Except where a Board committee has sole authority to act as required by applicable law or a listing standard, it is the general policy of the Company that major decisions be considered by the Board as a whole. As a consequence, the Board has determined to constitute only those committees that it believes are critical to the efficient operation of the Board or are required by applicable law or a listing standard. The Board currently has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The Board has the authority to establish such other committees, temporary or permanent, as the Board deems advisable. The Audit Committee will consist of three or more directors and the Compensation Committee and the Nominating and Corporate Governance Committee will consist of two or more directors. Each of the members of these committees will satisfy the independence requirements set forth herein, other requirements applicable to Audit Committee members set forth herein and any additional requirements set forth in their respective charters and any other listing or regulatory requirements. The Board designates a chairperson of each committee. Each of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee has appropriate written charters. The charter of each committee is reviewed annually by the relevant committee and any changes thereto are recommended to the Board.
- B. Committee Agendas. The chairperson of each committee, in consultation with the appropriate members of the committee and management, will oversee the development of his/her committee's agenda.
- C. Board Oversight; Committee Reports. The Board is responsible for overseeing the activities of its committees (except where such committees have sole authority to act pursuant to applicable law or a listing standard) and for ensuring that the committees are fulfilling their duties and responsibilities. The Board will regularly receive reports from its committees regarding their activities and will take such actions as it deems necessary or appropriate in response to these reports.

#### **V. Other Principles**

- A. Disclosure and Review of Corporate Governance Principles. The Board of Directors will review these Corporate Governance Guidelines from time to time, but not less frequently than annually.
- B. Disclosure Policy. The Board believes that it is imperative that the Company promote full, fair, accurate, timely, and understandable disclosure in the periodic reports and other statements required to be filed by the Company.
- C. Loans. Personal loans to directors or executive officers are not permitted.