

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

IN RE HEELYS INC. DERIVATIVE) Master Docket No. 3:07-CV-1682-K
LITIGATION)
_____) **ECF**
This Document Relates To:)
_____)
ALL ACTIONS.)

CORPORATE GOVERNANCE RELIEF

EXHIBIT B

As a result of the institution, prosecution, and settlement of the Derivative Action, Heelys has agreed to implement and/or maintain various corporate governance reforms aimed at strengthening its internal controls, increasing director independence and responsibility, and preventing a reoccurrence of the alleged wrongdoing in the Derivative Action. Within thirty (30) days of final approval of the Settlement by the Court, the following reforms shall be implemented and/or maintained for at least four (4) years from the date the Settlement becomes final (as defined in the Stipulation of Settlement) except if Heelys ceases to be a public company that is required to file reports with the Securities and Exchange Commission or any exchange.

A. Board of Directors

1. The number of directors comprising the Board of Directors (the "Board") remain at not more than eight. A majority of the Board shall be comprised of independent directors.

2. The Chairman of the Board shall not be the Chief Executive officer ("CEO") of the Company. The Chairman of the Board must meet the definition of "independent" as described herein.

3. The by-laws of the Company should include specific limits on outside board memberships. The CEO of the Company should not participate on any boards of for-profit, public corporations, and independent directors should not serve on more than three boards of publicly held companies; including the Company. The CEO or other full time senior corporate officer of another company serving on the Company's board should be limited to not more than three public company boards in total, including the boards of such person's own employer and the Company.

4. No member of the Board shall be a current executive officer of a customer or supplier of the Company.

5. The Company's by-laws should provide for annual election of the nonexecutive chairman, and for a maximum tenure of six years.

6. Director Retirement. No person who has reached the age of seventy-five shall be eligible for election or re-election as a director of the Company. In addition, the Board shall adopt a policy prohibiting directors from serving more than fifteen years on the Board.

7. Director Independence. In addition to those qualifications listed in the Company's Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), as filed April 28, 2009, a director will be deemed independent only if he or she:

(a) has not been employed by the Company or by any of its direct or indirect subsidiaries in any capacity within the last five calendar years (other than service as an interim officer for a period of four months or less);

(b) has not received from the Company during the current calendar year or any of the three immediately preceding calendar years, remuneration, directly or indirectly, totaling more than \$120,000, with such remuneration level to be adjusted periodically in accordance with the rules and regulations of NASDAQ;

(c) has no personal service contracts with the Company, or any member of the Company's senior management;

(d) is not an employee or officer with a not-for-profit entity that receives contributions from the Company or the Company's executive officers totaling the lesser of \$100,000 or 1% of the charities total contribution in the preceding two years;

(e) during the current calendar year or any of the three immediate preceding calendar years, has not had any business relationship with the Company for which the Company has been required to make disclosure under Regulation S-K of the Securities and Exchange Commission ("SEC"), other than for service as a director or for which relationship no more than *de minimis* remuneration was received in anyone such year;

(f) is not employed by a private or public company at which an executive officer of the Company serves as a director;

(g) has not had any of the relationships described in subsection (a) through (f) above, with any affiliate of the Company; provided however that notwithstanding the foregoing, if the Company's Board makes a determination that a director or director candidate that has or had a relationship described in subsection (a) through (f) above with Capital Southwest Corporation or Capital Southwest Venture Corporation can be considered independent for purposes of this provision and the NASDAQ rules and regulations, then such director or director candidate will be considered independent for purposes of this provision;

(h) is not a member of the immediate family (e.g. spouse, parent, child, or sibling, whether by blood or marriage or adoption or anyone living in the same house) of any person described in subsections (a) through (f) above; and

(i) does not have beneficial ownership interest of 5% or more in an entity that has received remuneration, other than *de minimis* remuneration, from the Company, its subsidiaries, or affiliates. *De minimis* remuneration is defined as: (i) direct remuneration of \$120,000 or less received from the Company, its subsidiaries, or affiliates during a calendar year (other than compensation); or (ii) indirect remuneration paid to an entity if such remuneration does not exceed the lesser of \$1 million or 1% of the gross revenues of the entity and did not directly result in an increase in the compensation received by the director from that entity. Such remuneration level shall be adjusted periodically in accordance with the rules and regulations of NASDAQ.

8. Director Stock Ownership. The Company shall adopt share ownerships guidelines for its directors that are designed to align the interests of the Board with those of shareholders, taking into account that share ownerships requirements must ensure that Board members have a sufficient stake in the Company to share in the financial fortunes of shareholders, while also considering the appropriate financial planning and needs of individual directors.

9. Meetings In Executive Session. The Board shall hold an executive session at each regularly scheduled meeting of the Board at which employee directors are not present.

B. Creation of a Safety Compliance Manager

1. The Company shall designate a Safety Compliance Manager ("SCM"). The Company may designate as the SCM an existing employee of the Company, who may retain his or her existing duties in addition to serving as the SCM. The responsibilities of the SCM shall be to:

(a) use all reasonable efforts to ensure the Company conducts business in adherence with all applicable laws and regulations concerning the design, manufacture, and use of the Company's products;

(b) inform consumers of the possible dangers associated with the Company's products and the guidelines for safe use of the Company's products (including proper techniques when using the Company's products, wearing helmets, and wearing other safety gear) in a manner designed to ensure that the Company's products are used in a manner to minimize or avoid injuries;

(c) assess, on an ongoing basis, the current state of the Company's products and their corresponding safety risks;

(d) develop an annual compliance work plan which will:

(i) create policies, standards, or controls to ensure that the Company's products are designed, manufactured, and instructed to be used in a manner to satisfy all applicable governmental regulatory standards; and

(ii) ensure that the policies, standards, or controls that have been established are updated as necessary to reflect regulatory, legal, or organizational changes known by the SCM.

2. The SCM will provide updates and reports concerning his or her duties as needed, but at least annually, to the CEO and to the Board. The SCM shall create a charter for the SCM, which shall be posted on the Company's website.

C. Creation of a Disclosure & Controls Manager

1. The Company shall establish a Disclosure & Controls Manager ("Disclosure Manager"). The Company may designate as the Disclosure Manager an existing employee of the Company, who may retain his or her existing duties in addition to serving as the Disclosure Manager. The responsibilities of the Disclosure Manager shall be to:

(a) establish controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act and other information that the Company may disclose to the public is recorded, processed, summarized, and reported accurately and within the time periods specified in the SEC's rules and forms;

(b) design, implement, and monitor the Company's disclosure controls and procedures;

(c) evaluate the effectiveness of the Company's disclosure controls and procedures as of the end of each fiscal quarter and year-end;

(d) oversee the preparation and disclosure of the Company's Exchange Act filings (including Form 10-Q, Form 10-K, Form 8-K, and proxy statements), registration statements, press releases containing financial information, information about material acquisitions or dispositions or other information material to the Company's security holders, correspondence to stockholders, and presentations to analysts and investors;

(e) review each Exchange Act report prior to filing with the SEC to assess the quality and completeness of the disclosures and whether the report is accurate and complete in all material respects.

(f) report to and advise the CEO (and, if the Disclosure Manager is not the same person as the Chief Financial Officer ("CFO"), then also report to and advise the CFO) with respect to the certifications they must provide for the Company's quarterly and annual reports;

(g) evaluate the materiality of information and events relating to or affecting the Company and determine the timing and appropriate method of disclosure of information deemed material;

(h) ensure that if the Company compensates a third party to prepare a study or report on the safety of the Company's products, that any use of that study or report be accompanied by a disclosure that it was prepared by a third party compensated by the Company

(i) undertake any other duties or responsibilities as the CEO or CFO may from time to time prescribe; and

(j) ensure the accuracy of the qualifications of Heelys' directors, executives, and other employees.

2. The Disclosure Manager shall review each annual and quarterly Exchange Act filing. Representatives of the Company's independent auditors, and other personnel of the Company or representatives of its outside advisors shall be invited to meet with the Disclosure Manager to review his or her work. The Disclosure Manager shall report any concerns regarding disclosure issues to the Audit Committee of the Board. The Disclosure Manager shall create a charter for the Disclosure Manager which shall be posted on the Company's website.

D. Adoption of Compensation Principles

The Board of Directors shall adopt a resolution setting forth the following compensation principles to guide the Compensation Committee:

1. Compensation arrangements shall emphasize pay for performance and encourage retention of those employees who enhance the Company's performance.

2. Compensation arrangements shall promote ownership of the Company stock to align the interests of management and stockholders.

3. Compensation arrangements shall maintain an appropriate balance between base salary and long-term and annual incentive compensation.

4. In approving compensation, the recent compensation history of the executive, including special or unusual compensation payments, shall be taken into consideration.

5. Cash incentive compensation plans for senior executives shall link pay to achievement of financial goals set in advance by the Compensation Committee.

E. CEO Compensation

The Compensation Committee shall recommend for review by the Board annual and long-term performance goals for the CEO and evaluate his performance against such goals and other relevant factors such as the performance of the Company's peer companies. During its consideration of the compensation of the CEO, the Compensation Committee shall meet in executive session, without the CEO.

F. Insider Trading Controls

The Board will appoint an officer of the Company who will be responsible for effecting compliance with the Company's stock trading and market communications policy. That individual will be designated the Vice President for Compliance ("Compliance Officer") and will be responsible for developing (with Board involvement), presenting to the Board for approval, and monitoring and updating (with Board involvement and approval) a comprehensive program (the "Trading Compliance Program") designed to ensure compliance with the Company's trading policies. The Board will be responsible for direct oversight of the Trading Compliance Program and the Compliance Officer, and the outside director (non-management) members of the Board will have direct access to the Compliance Officer, including the opportunity to meet with the Compliance Officer outside the presence of any other member of management. At least once yearly, the outside director members of the Board will receive a report from the Compliance Officer outside the presence of any other members of management. In addition to the above:

1. The Trading Compliance Program shall contain provisions with respect to transactions in the Company's securities by directors and officers of the Company which are no less restrictive than those set forth in the NASDAQ Stock Market rules and shall take into account applicable federal securities laws and regulations.

2. During the pendency of any Company-funded open market stock buy-back program, no insider shall be permitted to sell stock except pursuant to previously implemented Rule 10b5-1 plans.

3. The Company shall require the public disclosure of all sales or purchases of the Company's stock by any corporate executive officers or directors within forty-eight hours of such purchase or sale. Using Company stock or options to secure any loan to an executive officer or director or engaging in a swap, forward contract or other similar contract involving an executive officer's or director's stock shall be considered a "sale" and so disclosed. The Company will take

reasonable steps to ensure that all directors and officers file all trading forms required by them to be filed by the SEC concerning trading by directors, officers, and executive employees of the Company.

4. Failure to comply with the Company's trading policy will result in appropriate sanctions, including disgorgement by the individual to the Company of all profits from the transaction, termination, or other appropriate disciplinary action.

5. No corporate officer or director shall directly or indirectly "short" the Company's stock or engage in "put" or "call" transactions involving the Company's stock.

G. Corporate Ethics, Honesty, and Legal Compliance

The Board will create a Vice President Compliance and designate such officer. The Company may designate as the Vice President Compliance an existing employee of the Company, who may retain his or her existing duties in addition to serving as the Vice President Compliance. This officer shall have the duty and authority to do the following:

1. create, implement, and oversee a system by which corporate employees, suppliers, customers, advisor professionals, consumers and the like can, on a confidential basis and without fear or reprisal, provide information concerning possible illegal or unethical conduct regarding the Company; and

2. retain separate and independent counsel at the Company's expense to provide advice and counsel.

This officer, whose identity and secure contact information will be disclosed in the Company's proxy and currently maintained on the Company's website, will also act as a neutral party for employees to report instances of unlawful, improper, or inaccurate disclosures of private information. Employees' identities will be maintained in a strictly confidential manner and quarterly reports of all complaints, and the Company's response thereto, will be posted on the Company web site.

H. Shareholder Proposals

All shareholder proposals shall be evaluated by a committee of at least three independent directors, chaired by the Chairman. Such committee shall determine, with the assistance of outside advisors, if necessary, whether the shareholder proposal is in the best interest of the Company. The committee shall recommend to the Board for or against such shareholder proposal and the reasons for such recommendation. The Board shall recommend for or against such proposal and the reason for such recommendation in a proxy statement.

I. Publication of Corporate Governance Policies

The Company shall place its formal policies for corporate governance on the Company's website for public access and review.