

**NUTRISYSTEM, INC.**  
**CORPORATE GOVERNANCE GUIDELINES**  
**(as adopted October 19, 2005)**

The following guidelines have been adopted by the Board of Directors of NutriSystem, Inc. (the "Company"). These guidelines, along with the charters and key practices of the Board's committees, provide the general framework for the governance of the Company.

- Role of the Board of Directors
- Board Compensation
- Board Meetings
- Board Committees
- Board and Management Evaluation
- Policies and Guidelines

**I. Role of the Board of Directors**

**Management of the Company's Business and Affairs.** The business and affairs of the Company shall be managed by or under the direction of the Board. The Board selects the Chief Executive Officer of the Company, elects the Company's other executive officers, designates which officers are executive officers for purposes of Section 16 of the Securities Exchange Act of 1934, as amended, and oversees management. The Board also oversees the Company's strategic and business planning process. The Board also reviews and assesses risks facing the Company and management's approach to addressing such risks.

**Preparation and Participation.** The Company's directors are expected to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Accordingly, directors are expected to attend at least 75% of the Board meetings and meetings of committees on which they serve, and to review before each meeting the materials distributed in advance of such meetings. A director who is unable to attend a meeting is expected to notify the Chairman of the Board or the chairman of the appropriate committee in advance of such meeting.

**The Board's Duty to the Company and its Stockholders.** The Board's fundamental role is to exercise business judgment to act in what the Board members reasonably believe to be the best interests of the Company and its stockholders. In fulfilling its role, the directors should be able to rely on the honesty and integrity of the Company's senior management and expert legal, accounting, financial and other advisors. The directors should have the benefit of directors' and officers' insurance, paid by the Company, indemnification to the fullest extent allowed under the Delaware General Corporation

Law as provided by the Company's Certificate of Incorporation and Bylaws, and the indemnification agreements entered into between the Company and its directors.

## **II. Board Composition**

**Selection of the Chairman of the Board.** The Board does not have a policy regarding the separation of the offices of the Chairman of the Board and Chief Executive Officer. The Board shall be free to choose its Chairman of the Board in any way that it deems best for the Company at any given point in time. The Board believes these issues should be considered as part of the Board's broader succession planning process.

**Size of the Board.** The number of directors should not exceed a number that can function efficiently. The Nominating and Governance Committee shall consider and make recommendations to the Board concerning the appropriate size and needs of the Board.

**Independence of the Board.** The Board shall be comprised of a majority of directors who qualify as independent directors under the applicable rules of the Nasdaq National Market and the Securities and Exchange Commission.

The Board is also responsible for affirmatively determining that each independent director has no other material relationship with the Company or its affiliates or any executive officer of the Company or his or her affiliates. A relationship will be considered "material" if in the judgment of the Board it would interfere with the director's independent judgment.

**Board Membership Criteria.** The Nominating and Governance Committee is responsible for reviewing with the Board from time to time the requisite skills and characteristics required of Board members in the context of the current Board composition. Members of the Board should have the highest professional and personal ethics and values, consistent with longstanding Company values and standards. It is the intent of the Board that the Board will be comprised of individuals who have distinguished records of leadership and success in their arena of activity and who will make substantial contributions to Board operations and effectively represent the interests of all stockholders.

**Term Limits.** The Board does not have term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who over time have developed increasing insight into the Company and its operations and therefore provide an increasing contribution to the Board as a whole.

**Selection of New Directors.** The Nominating and Governance Committee is responsible for identifying and recommending candidates for election to the Board and for filling vacancies on the Board that may occur between annual meetings of stockholders.

**New Director Orientation and Continuing Education.** As soon as practicable following election or appointment of a new director, the Company shall make available to the new director a director orientation program. The program shall be constructed to familiarize the new director with, among other things, the Company's business, strategic plans, significant financial, accounting and risk management issues, compliance

programs, conflicts policies, code of business conduct, corporate governance guidelines, principal officers and independent auditors. The Company also provides continuing education for directors, including presentations by senior management and visits to the Company's facilities. The Company also will encourage and support the activities of its directors in attending corporate governance and other professional development and training programs designed for board members of publicly held companies.

**Directors Who Change Their Current Job Responsibility.** Directors who retire or change from the position they held when they came on the Board should not necessarily leave the Board. The Board may, via the Nominating and Governance Committee, review the continued appropriateness of Board membership under these circumstances.

**Service on Other Boards.** Directors are encouraged to evaluate carefully the time required to serve on other boards of directors (excluding non-profit), taking into account the effect of their service on such other boards on their attendance, preparation, participation and effectiveness on the Company's Board. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all duties as a director of the Company.

**Review of External Board Memberships by Company Executives.** The Nominating and Governance Committee reviews and concurs in the election of any employee director and any Section 16 officer to outside, for-profit Board seats. Additional Board service by such executives may help to broaden their experience and thereby benefit the Company.

**Authority to Retain Advisors.** The Board and each Board committee shall have the authority, at the Company's expense, to retain and terminate independent advisors as the Board and any such committee deems necessary.

**Director Compensation.** The form and amount of director compensation will be determined by the Outside Director Compensation Committee. Employee directors will not be paid for Board membership in addition to their regular employee compensation. Independent directors may not receive consulting, advisory or other compensatory fees from the Company in addition to their Board compensation. The Outside Director Compensation Committee will conduct an annual review of director compensation to ensure directors of the Company are compensated effectively in a manner consistent with the strategy of the Company, and to further ensure that the Company will be able to attract, retain and reward those who contribute to the success of the Company.

### **III. Board Meetings**

**Scheduling and Selection of Agenda Items for Board Meetings.** Board meetings are scheduled in advance and typically held four times per year. Additional Board meetings may be called upon appropriate notice at any time to address specific needs of the Company. The Board may also take action from time to time by unanimous written consent.

The Chairman of the Board and Chief Executive Officer, in consultation with the other members of the Board and management, shall draft the agenda for each meeting and distribute it in advance to the Board. Each director may propose the including of items on the agenda, request the presence of or a report by any member of the Company's

management, or at any Board meeting raise subjects that are not on the agenda for that meeting.

The annual cycle of agenda items for Board meetings is expected to change on a periodic basis to reflect, among other things, Board requests, changing business and legal issues and the work done by the Board committees. The Board's annual agenda will include the long-term strategic plan for the Company and the principal issues that the Company expects to face in the future.

**Board Materials Distributed in Advance.** Information and materials that are important to the Board's understanding of the agenda items and other topics to be considered at each Board meeting should, to the extent practicable, be distributed sufficiently in advance of the meeting to permit prior review by the directors. Sensitive subjects may be discussed at the meeting without distributing materials in advance or at the meeting.

**Executive Sessions of Independent Directors.** The independent directors of the Company shall meet in executive session without management on a regular basis, but in any event not less than annually. Independent directors may select a director to facilitate the executive session. Any independent director can request that an additional executive session be scheduled.

**Board Access to Management and Outside Advisors.** The Board has full and free access to officers and employees of the Company and, as appropriate, to the Company's outside advisors. Any meetings or contacts that a director wishes to initiate may be arranged directly by the director or through the Chief Executive Officer or other Company officer. Members of senior management may be invited to attend part or all of a Board meeting in order to participate in discussions.

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

**Number of Board Committees.** The Board currently has three committees: Audit, Compensation, and Nominating and Governance. The purpose and responsibilities of each of these committees shall be set forth in committee charters adopted by the Board. The Board has the authority to form a new committee or disband a current committee from time to time, depending on circumstances and legal or regulatory requirements. In addition, the Board has the authority to form *ad hoc* committees from time to time and to determine the composition and areas of competence of such committees.

**Independence of Board Committees.** Each of the Audit, Compensation and Nominating and Governance Committees shall be composed entirely of independent directors, satisfying any applicable legal, regulatory and stock exchange requirements necessary for an assignment to any such committee.

**Committee Members and Chairpersons.** The Nominating and Governance Committee shall make recommendations to the Board with respect to the assignment of Board members to committees. After reviewing the Nominating and Governance Committee's recommendations, the Board shall be responsible for appointing the chairmen and members to the committees.

The Nominating and Governance Committee shall review annually the committee assignments and shall consider the recommendations of the chairman and members of

each committee with a view toward balancing the benefits derived from continuity against the benefits derived from the diversity of experience and viewpoints of the various directors.

**Agenda, Frequency, Length and Reports of Committee Meetings.** The chairman of each committee shall approve the agenda, length of and attendance at each committee meeting and shall determine the frequency of meetings. Materials related to agenda items shall be given to the committee members sufficiently in advance to allow the members to prepare for discussing the items at the meeting. The committee chairmen shall report a summary of their meeting to the Board following each regular committee meeting.

## **V. Board and Management Evaluation**

**Self-Evaluation by the Board.** The Nominating and Governance Committee oversees an annual self-assessment of the Board's and each Board member's performance, as well as the performance of each Board committee. An assessment of such performance shall be reported to and discussed with the Board.

**Chief Executive Officer Performance Review and Succession Planning.** The Board annually reviews the performance of the Chief Executive Officer. The Compensation Committee also assesses Chief Executive Officer's performance annually in connection with determining the Chief Executive Officer's compensation. Factors to be considered in assessing the Chief Executive Officer's performance include strategic vision and leadership, external representation of the Company and management of external relationships, executive officer leadership development and succession planning, Company financial and operational performance, employee morale and motivation, and rapport with the Board.

The Nominating and Governance Committee shall make an annual report to the Board on succession planning. Such report should include the Nominating and Governance Committee's recommendation to the Board. The Board will work with the Nominating and Governance Committee to identify potential successors to the Chief Executive Officer. The Chief Executive Officer should make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

## **VI. Policies and Guidelines**

**Corporate Business Principles.** Members of the Board shall act at all times in accordance with the requirements of the Company's Code of Business Conduct, which shall be applicable to each director in connection with his or her activities relating to the Company. This obligation shall at all times include, without limitation, adherence to the Company's policies with respect to conflicts of interest, confidentiality, protection of the Company's assets, ethical conduct in business dealings and respect for and compliance with applicable law. Any waiver of the requirements of the Code of Business Conduct with respect to any individual director shall be reported to, and be subject to the approval of, the Board.

**Communications with Board.** The Board believes that management speaks for the Company. Individual Board members may, from time to time, communicate with various constituencies that are involved with the Company, but it is expected that Board members

would do this with knowledge of management and, in most instances, only at the request of management. Stockholders may communicate with the Board or any of the directors pursuant to the Company's Communications to Independent Directors policy.

**Attendance at Shareholder Meetings.** The Board encourages directors to attend the annual meeting of the Company's stockholders.

**Review of Corporate Governance Guidelines.** The Nominating and Governance Committee shall review these Corporate Governance Guidelines periodically and report to the Board with any recommendations it may have in connection with these guidelines.