



## **Corporate Governance Guidelines**

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#### **Board Membership Criteria**

The ultimate responsibility for the selection of new Directors resides with the Board. The identification, screening and recommendation process has been delegated to the Nomination Committee, which reviews candidates for election as Directors and annually recommends a slate of Directors for approval by the Board and election by the shareholders.

The Board requires that a substantial majority of the Board should consist of independent Directors. Any management representation should be limited to top Medifast management. Nominees for Director are selected on the basis of, among other things, broad perspective, integrity, independence of judgment, experience, expertise, diversity, ability to make independent analytical inquiries, understanding of the Company's business environment and willingness to devote adequate time and effort to Board responsibilities. Members should represent a predominance of business backgrounds and bring a variety of experiences and perspectives to the Board.

#### **Term Limits**

The Board does not believe it should establish 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 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. As an alternative to term limits, the Nomination Committee, in conjunction with the Chairman of the Board, will formally annually review each Director's continuation on the Board.

#### **Role of Directors**

The business of the Company is managed under the direction of the Board. Normally it is management's job to formalize, propose and implement strategic choices, and the Board's role to approve strategic direction and evaluate strategic results. However, as a practical matter, the Board and management will be better able to carry out their respective responsibilities if there is an ongoing dialogue among the Chief Executive Officer, other members of top management and Board members. To facilitate such discussions, the Board conducts an annual review of the Company's long-term strategic plans and principal issues.

Periodically during the year, the Board receives strategy updates from members of senior management of the Company.

Directors are expected to spend the time and effort necessary to properly discharge their responsibilities. Accordingly, a Director is expected to regularly attend meetings of the Board and committees on which he or she sits, and to review prior to meetings material distributed in advance for such meetings. A Director who is unable to attend a Board or Committee meeting (which, it is understood will occur on occasion) is expected to notify the Secretary of the Company who will advise the Chairman of the Board and/or the Chairman of the relevant Committee. All Directors are expected to attend the Company's Annual Meeting of Shareholders.

#### **Board Access to Management, other Employees and Advisors**

Board members have complete access to the Company's senior management and other employees. Board members have the authority to obtain advice and assistance from outside legal, accounting or other advisors of their own choosing, at the expense of the Company.

#### **Board Compensation**

A Director who is also an officer of the Company shall not receive additional compensation for such service as a Director.

The Company believes that compensation for non-employee Directors should be competitive and should encourage increased ownership of the Company's stock through the payment of a portion of Director compensation in Company stock or similar compensation. The Compensation Committee will periodically review the level and form of the Company's Director compensation, including how such compensation compares to Director compensation of companies of comparable size, industry and complexity. Changes to Director compensation will be proposed to the full Board for consideration.

No member of the Audit Committee may receive, directly or indirectly, any compensation from the Company other than (a) fees paid to directors for service on the Board, (b) additional fees paid to directors for service on a committee of the Board (including the Audit Committee) and/or for serving as the chairperson of such a committee and (c) a pension or other deferred compensation for prior service that is not contingent on future services on the Board.

### **Board Orientation and Continuing Education**

The Company has an orientation process for new Directors to familiarize them with the Company's business, strategic plans, significant financial, accounting and risk management issues, compliance programs, conflicts policies, code of business conduct and business ethics and corporate governance guidelines. This process includes review of background materials, meetings with senior management and visits to Company facilities. Each Director is expected to participate in continuing educational programs in order to maintain the necessary level of expertise to perform his or her responsibilities as a Director.

### **Self-Evaluation by the Board**

The Nomination Committee will sponsor an annual self-assessment of the Board's performance as well as the performance of each committee of the Board, the results of which will be discussed with the full Board and each committee. The assessment will include a review of any areas in which the Board or management believes the Board can make a better contribution to the Company. The Nomination Committee will also utilize the results of this self-evaluation process in assessing and determining the characteristics and critical skills required of prospective candidates for election to the Board and making recommendations to the Board with respect to assignments of Board members to various committees.

### **Chief Executive Officer Selection and Succession Planning**

#### **Selection of the Chief Executive Officer**

The Board is responsible for identifying potential candidates for, and selecting, the Company's Chief Executive Officer. In identifying potential candidates for and selecting the Company's Chief Executive Officer, the Board considers, among other things, a candidate's experience, understanding of the Company's business environment, leadership qualities, knowledge, skills, expertise, integrity, and reputation in the business community.

#### **Evaluation of Chief Executive Officer**

The Compensation Committee is responsible for overseeing the evaluation process for the Chief Executive Officer. This is done on an annual basis.

The process is intended to formally assess the Chief Executive Officer's past performance as well as to help the Board determine future developmental needs for the Chief Executive Officer. Consequently, there are two types of measures: 1) Financial Performance Measures (such as cash, profit and revenue) which track accountability for past performance, and 2) Leadership Effectiveness Measures (such as employee morale, strategic leadership, and enterprise guardianship) which single out the key objectives that will assure the future success of the company.

#### **Succession Planning**

The Board shall plan for the succession to the position of the Chief Executive Officer. To assist the Board, the Chief Executive Officer shall conduct an annual succession planning session with the Board at which an assessment of senior managers will be conducted including their potential to succeed the Chief Executive Officer and other senior management positions.

Management Development The Board shall determine that a satisfactory system is in effect for education, development, and orderly succession of senior and mid-level managers throughout the Company.

### **Board Independence**

The Board is comprised of a majority of Directors who qualify as independent Directors. The Board will make a determination

as to each Director's independence broadly considering all relevant facts and circumstances. However, the Board has adopted categorical standards to assist it in making the independence determination. Under these categorical standards, a Director shall be presumed not to have a material relationship with the Company or any of its consolidated subsidiaries, and thus be presumed to be independent, if:

1. He or she meets all the independence and other applicable requirements under the listing standards of the NYSE Arca exchange and all other applicable laws, rules and regulations regarding director independence, in each case from time to time in effect;
2. He or she is not a current employee (and none of his or her "immediate family members", as defined by the NYSE Arca Corporate Governance Rules, is employed as an "executive officer", as defined by the NYSE Arca Corporate Governance Rules) of a company that has made payments to, or received payments from, the Company or any of its consolidated subsidiaries for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or one percent of such other company's consolidated gross revenues; and
3. In the event that he or she serves as an executive officer or director of a charitable organization, the Company and its consolidated subsidiaries donated less than five percent of that organization's charitable receipts (provided that if within the preceding three years the Company and its consolidated subsidiaries donated annual aggregate contributions in excess of \$1 million or 2% of the annual consolidated gross revenue of the charitable organization, such contributions must be disclosed in the Company's proxy statement).

The Board annually reviews the relationships that each Director has with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) to insure compliance with NYSE Arca listing standards and requirements otherwise imposed by law or regulation and the foregoing categorical standards. Following this review, only those Directors who the Board affirmatively determines have 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) will be considered independent Directors under such standards, law or regulation and such categorical standards.

Our Board has determined that based upon this standard 4 of 7 of our directors are independent. The independent Directors are Rev. Donald Reilly, Mary Travis, George Lavin, Esq. and Rev. Joseph Calderone. The directors that are not independent include our Chairman and Chief Executive Officer Bradley MacDonald, Michael MacDonald, and Michael J. McDevitt.

## **POLICIES AND GUIDELINES**

Copies of the current version of these Corporate Governance Guidelines, the Company's Code of Business Conduct and Ethics, and the charter of each key committee of the Board shall be posted on the Company's website.