MEDIFAST INC
Form 10-Q
August 06, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-23016

MEDIFAST, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction<br>of organization) | 13-3714405<br>(I.R.S. employer<br>Identification no.) |

11445 Cronhill Drive
Owings Mills, MD 21117
Telephone Number (410) 581-8042

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

| Class | Outstanding at August 6, 2009 |
|---|---|
| Common stock, $.001 par value per share | 15,220,960 shares |

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MEDIFAST, INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,073,000 | $ 1,841,000 |
| Accounts receivable-net of allowance for doubtful accounts of $100,000 | 582,000 | 448,000 |
| Inventory | 11,188,000 | 13,856,000 |
| Investment securities | 1,339,000 | 1,099,000 |
| Deferred compensation | 535,000 | 531,000 |
| Prepaid expenses and other current assets | 1,723,000 | 2,034,000 |
| Prepaid income tax | 1,777,000 | 1,131,000 |
| Note receivable - current | 180,000 | 180,000 |
| Deferred tax asset | 100,000 | 100,000 |
| Total Current Assets | 28,497,000 | 21,220,000 |
| | | |
| Property, plant and equipment - net | 21,880,000 | 21,709,000 |
| Trademarks and intangibles - net | 4,697,000 | 5,547,000 |
| Deferred tax asset, net of current portion | 1,351,000 | 1,131,000 |
| Note receivable, net of current portion | 1,012,000 | 1,080,000 |
| Other assets | 352,000 | 350,000 |
| TOTAL ASSETS | $ 57,789,000 | $ 51,037,000 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 5,711,000 | $ 5,130,000 |
| Line of credit | 2,693,000 | 3,164,000 |
| Current maturities of long-term debt | 257,000 | 257,000 |
| Total Current liabilities | 8,661,000 | 8,551,000 |
| | | |
| Long-term debt, net of current liabilities | 4,185,000 | 4,313,000 |
| Total liabilities | 12,846,000 | 12,864,000 |
| Stockholders' equity: | | |
| Common stock; par value $.001 per share; 20,000,000 authorized; 15,220,960 and 14,585,960 shares issued and outstanding, respectively | 15,000 | 15,000 |
| Additional paid-in capital | 34,705,000 | 30,787,000 |
| Accumulated other comprehensive (loss) | (173,000) | (389,000) |
| Retained earnings | 20,737,000 | 15,253,000 |
| | 55,284,000 | 45,666,000 |
| Less: cost of 301,092 and 272,192 shares of common stock in treasury, respectively | (2,058,000) | (1,956,000) |
| Less: unearned stock compensation | (8,283,000) | (5,537,000) |
| Total Stockholders' Equity | 44,943,000 | 38,173,000 |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 57,789,000 | $ 51,037,000 |

See accompanying notes to condensed consolidated financial statements.

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MEDIFAST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue | $ 40,713,000 | $ 27,537,000 | $ 74,393,000 | $ 52,706,000 |
| Cost of sales | 9,751,000 | 6,677,000 | 17,805,000 | 12,777,000 |
| Gross Profit | 30,962,000 | 20,860,000 | 56,588,000 | 39,929,000 |
| | | | | |
| Selling, general, and administration | 26,174,000 | 18,451,000 | 47,785,000 | 35,457,000 |
| | | | | |
| Income from operations | 4,788,000 | 2,409,000 | 8,803,000 | 4,472,000 |
| | | | | |
| Other income/(expense) | | | | |
| Interest expense | (37,000) | (87,000) | (74,000) | (191,000) |
| Interest income | 40,000 | 43,000 | 73,000 | 82,000 |
| Other income/expense | (32,000) | (41,000) | (67,000) | (6,000) |
| | (29,000) | (85,000) | (68,000) | (115,000) |
| | | | | |
| Income before provision for income taxes | 4,759,000 | 2,324,000 | 8,735,000 | 4,357,000 |
| Provision for income tax (expense) | (1,760,000) | (752,000) | (3,251,000) | (1,420,000) |
| | | | | |
| Net income | $ 2,999,000 | $ 1,572,000 | $ 5,484,000 | $ 2,937,000 |
| | | | | |
| Basic earnings per share | $ 0.22 | $ 0.12 | $ 0.41 | $ 0.22 |
| Diluted earnings per share | $ 0.20 | $ 0.11 | $ 0.37 | $ 0.21 |
| | | | | |
| Weighted average shares outstanding - | | | | |
| Basic | 13,417,667 | 13,138,202 | 13,277,293 | 13,119,497 |
| Diluted | 15,039,547 | 13,791,623 | 14,899,173 | 13,772,918 |

See accompanying notes to condensed consolidated financial statements.

MEDIFAST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Six Months Ended June 30, 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 5,484,000 | $ 2,937,000 |
| Adjustments to reconcile net income to net cash provided by operating activities from continuing operations: | | |
| Depreciation and amortization | 2,536,000 | 2,243,000 |
| Realized loss on investment securities | 67,000 | 38,000 |
| Common stock issued for services | 104,000 | 70,000 |
| Stock options cancelled during period | - | (77,000) |
| Vesting of unearned compensation | 1,068,000 | 296,000 |
| Net change in other comprehensive gain (loss) | 217,000 | (162,000) |
| Deferred income taxes | (220,000) | - |
| | - | |
| Changes in assets and liabilities: | | |
| Decrease (Increase) in accounts receivable | (134,000) | 18,000 |
| Decrease (Increase) in inventory | 2,667,000 | (1,857,000) |
| Decrease (Increase) in prepaid expenses & other current assets | 312,000 | (347,000) |
| (Increase) in deferred compensation | (4,000) | (11,000) |
| (Increase) in prepaid taxes | (646,000) | (987,000) |
| (Increase) in other assets | (2,000) | (251,000) |
| Increase in accounts payable and accrued expenses | 582,000 | 2,033,000 |
| (Decrease) in income taxes payable | - | (592,000) |
| Net cash provided by operating activities | 12,031,000 | 3,351,000 |
| | | |
| Cash Flow from Investing Activities: | | |
| (Purchase) of investment securities, net | (308,000) | (4,000) |
| (Purchase) of property and equipment | (1,857,000) | (4,546,000) |
| Net cash (used in) investing activities | (2,165,000) | (4,550,000) |
| | | |
| Cash Flow from Financing Activities: | | |
| Issuance of common stock, options and warrants | - | 17,000 |
| (Repayment) of long-term debt, net | (128,000) | (136,000) |
| Increase (decrease) in line of credit, net | (471,000) | 1,103,000 |
| Decrease in note receivable | 68,000 | 66,000 |
| (Purchase) of treasury stock | (102,000) | - |
| Net cash provided by (used in) financing activities | (633,000) | 1,050,000 |
| | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 9,233,000 | (149,000) |
| Cash and cash equivalents - beginning of the period | 1,841,000 | 2,195,000 |
| Cash and cash equivalents - end of period | $ 11,074,000 | $ 2,046,000 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $ 37,000 | $ 191,000 |
| Income taxes | $ 4,132,000 | $ 3,008,000 |
| Supplemental disclosure of non cash activity: | | |

| | | | | |
|---|---|---|---|---|
| Common stock issued to Executives and Directors over 2-6 year vesting periods | $ | 1,068,000 | $ | 296,000 |
| Common shares issued for options or warrants | $ | - | $ | 42,000 |
| Options cancelled during period | $ | - | $ | (77,000) |
| Common stock issued for services | $ | 104,000 | $ | 70,000 |

See accompanying notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

General

1. Basis of Presentation

The condensed unaudited interim consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements and notes are presented as permitted on Form 10-Q and do not contain information included in the Company's annual statements and notes. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the December 31, 2008 audited consolidated financial statements and the accompanying notes thereto. While management believes the procedures followed in preparing these condensed consolidated financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by the Company later in the year.

These condensed unaudited consolidated financial statements reflect all adjustments, including normal recurring adjustments, which, in the opinion of management, are necessary to present fairly the operations and cash flows for the period presented.

2. Presentation of Financial Statements

The Company's condensed consolidated financial statements include the accounts of Medifast, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

3. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("SFAS 168"). SFAS 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. SFAS 168 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. SFAS 168 will be effective for financial statements issued for reporting periods that end after September 15, 2009. All future references to authoritative accounting literature in our financial statements issued for reporting periods that end after September 15, 2009 will be referenced in accordance with SFAS 168.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 applies prospectively to both interim and annual financial periods ending after June 15, 2009. The adoption of SFAS 165 did not result in any material change to our policies.

In April 2009, the FASB issued FSP No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments ("FSP 107-1"). FSP 107-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, and Accounting Principles Board Opinion No. 28, Interim Financial Reporting, to require disclosures about fair value of financial instruments for interim periods of publicly traded companies as well as in annual financial statements. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP 107-1 had no material effect on our disclosures in our financial statements.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed in these financial statements and notes or in our financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2008, we believe the impact of any other recently issued standards that are not yet effective are either not applicable to us at this time or will not have a material impact on our consolidated financial statements upon adoption.

## 4. Revenue Recognition

Revenue is recognized net of discounts, rebates, promotional adjustments, price adjustments, returns and other potential adjustments upon shipment and passing of risk to the customer and when estimates of are reasonably determinable, collection is reasonably assured and the Company has no further performance obligations.

## 5. Inventories

Inventories consist principally of finished packaged foods, packaging and raw materials held in either the Company's manufacturing facility or distribution warehouse. Inventories are valued at cost determined using the first-in, first-out (FIFO) method.

## 6. Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142 "Goodwill and Other Intangible Assets". This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets". It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

In addition, the Company has acquired other intangible assets, which include: customer lists, trademarks, patents, and copyrights. The customer lists are being amortized over a period ranging between 5 and 7 years based on management's best estimate of the expected benefits to be consumed or otherwise used up. The costs of patents and copyrights are amortized over 5 and 7 years based on their estimated useful life, while trademarks representing brands with an infinite life, and are carried at cost and tested annually for impairment as outlined below. Goodwill and other intangible assets are tested annually for impairment in the fourth quarter, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The Company assesses the recoverability of its goodwill and other intangible assets by comparing the projected undiscounted net cash flows associated with the related asset, over their remaining lives, in comparison to their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

| | As of June 30, 2009 Gross Carrying Amount | As of June 30, 2009 Accumulated Amortization | As of December 31, 2008 Gross Carrying Amount | As of December 31, 2008 Accumulated Amortization |
|---|---|---|---|---|
| Customer lists | $ 8,332,000 | $ 5,379,000 | $ 8,332,000 | $ 4,649,000 |
| Trademarks, patents, and copyrights | | | | |
| finite life | 1,640,000 | 805,000 | 1,640,000 | 685,000 |
| infinite life | 909,000 | - | 909,000 | - |
| Total | $ 10,881,000 | $ 6,184,000 | $ 10,881,000 | $ 5,334,000 |

Amortization expense for the six months ended June 30, 2009 and 2008 was as follows:

| | 2009 | 2008 |
|---|---|---|
| Customer lists | $ 730,000 | $ 804,000 |
| Trademarks and patents | 120,000 | 122,000 |
| | | |
| Total Trademarks and Intangibles | $ 850,000 | $ 926,000 |

Amortization expense is included in selling, general and administrative expenses.

## 7. Fixed Assets

Fixed assets are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, which are generally three to seven years. Leasehold improvements and equipment under capital leases are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the related lease terms. Expenditures for repairs and maintenance are charged to expense as incurred, while major renewals and improvements are capitalized.

## 8. Note Receivable

Medifast realized a $1,503,000 note receivable as a result of the sale of Consumer Choice Systems on January 17, 2006 to a former board member. The note has a 10-year term with imputed interest of 4% collateralized by 50,000 shares of Medifast stock and all the assets of Consumer Choice Systems. The amount of principal to be collected over each of the next 5 years is $183,000 per year with the remaining amount collectible thereafter of $495,000.

## 9. Income Per Common Share

Basic income per share is calculated by dividing net income by the weighted average number of outstanding common shares during the year. Basic income per share excludes any dilutive effects of options, warrants and other stock-based compensation.

## 10. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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## 11. Deferred Compensation Plans

We maintain a non-qualified deferred compensation plan for Senior Executive management.  Currently, Bradley MacDonald is the only participant in the plan.  Under the deferred compensation plan that became effective in 2003, executive officers of the Company may defer a portion of their salary and bonus (performance-based compensation) annually. A participant may elect to receive distributions of the accrued deferred compensation in a lump sum or in installments upon retirement

Each participating officer may request that the deferred amounts be allocated among several available investment options established and offered by the Company. These investment options provide market rates of return and are not subsidized by the Company. The benefit payable under the plan at any time to a participant following termination of employment is equal to the applicable deferred amounts, plus or minus any earnings or losses attributable to the investment of such deferred amounts. The Company has established a trust for the benefit of participants in the deferred compensation plan. Pursuant to the terms of the trust, as soon as possible after any deferred amounts have been withheld from a plan participant, the Company will contribute such deferred amounts to the trust to be held for the benefit of the participant in accordance with the terms of the plan and the trust.

Retirement payouts under the plan upon an executive officer’s retirement from the Company are payable either in a lump-sum payment or in annual installments over a period of up to ten years. Upon death, disability or termination of employment, all amounts shall be paid in a lump-sum payment as soon as administratively feasible.

## 12. Fair Value Measurements

On January 1, 2008, the Company adopted SFAS No. 157 “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, provides a consistent framework for measuring fair value under Generally Accepted Accounting Principles and expands fair value financial statement disclosure requirements. SFAS 157’s valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. SFAS 157 classifies these inputs into the following hierarchy:

Level 1 Inputs– Quoted prices for identical instruments in active markets.

Level 2 Inputs– Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments  in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs– Instruments with primarily unobservable value drivers.

The following table represents the fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009.

Fair Value Measurements on a Recurring Basis as of June 30, 2009

| Assets | Level I | Level II | Level III | Total |
|---|---|---|---|---|
| Investment securities | $ 1,339,000 | - | - | $ 1,339,000 |
| Cash equivalents | 11,073,000 | - | - | 11,073,000 |
| Total Assets | $ 12,412,000 | $ - | $ - | $ 12,412,000 |
| Liabilities | - | - | - | - |
| Total Liabilities | $ - | $ - | $ - | $ - |

Effective this quarter, we implemented Statement of Financial Accounting Standards No. 157, Fair Value Measurements, or SFAS 157, for our nonfinancial assets and liabilities that are remeasured at fair value on a non-recurring basis. The adoption of SFAS 157 for our nonfinancial assets and liabilities that are remeasured at fair value on a non-recurring basis did not impact our financial position or results of operations; however, could have an impact in future periods. In addition, we may have additional disclosure requirements in the event we complete an acquisition or incur impairment of our assets in future periods.

13. Share Based Payments

Stock-Based Compensation

Effective December 31, 2005, the Company adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standard (“SFAS”) No. 123(R), “Share-Based Payments,” which establishes the accounting for employee stock-based awards. Under the provisions of SFAS No.123(R), stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). The Company adopted SFAS No. 123(R) using the modified prospective method and, as a result, periods prior to December 31, 2005 have not been restated. The Company recognized stock-based compensation for awards issued under the Company’s stock option plans in other income/expenses included in the Condensed Consolidated Statement of Operations. Additionally, no modifications were made to outstanding stock options prior to the adoption of SFAS No. 123(R), and no cumulative adjustments were recorded in the Company’s financial statements.

Unearned compensation represents shares issued to executives and Board members that will be vested over a 2-6 year period. These shares will be amortized over the vesting period in accordance with FASB 123(R). The expense related to the vesting of unearned compensation was $1,068,000 and $296,000 at June 30, 2009 June 30, 2008, respectively. There was no expense related to vesting of options under FASB 123R at June 30, 2009 and 2008.

The Medifast Board of Directors on May 7, 2009 approved restricted common stock grants to key executives and Board members with a 5 year vesting period, beginning on the grant date. Key executives were granted 460,000 shares of restricted common stock to retain their services over the next five years and recognize continued sales and profit growth in accordance with targets set by the Board of Directors. The Board of Directors received a total of 71,000 shares with a two year vesting period, beginning on the grant date for their participation and guidance in Medifast’s strong sales and profit growth.

The Compensation Committee of Medifast, Inc. has utilized vested stock grants as a major source of compensation for its senior executive team so that their interests are aligned with Shareholders by building value in the Medifast Brand and increasing shareholder value. The Senior Executive Team continues to earn stock grants over the next five years and must pay an increasingly higher tax rate on their illiquid restricted stock grants. Therefore, over the next 12 months, the CEO, President and the VP of Finance plan on selling shares of Medifast Common Stock up to approximately 200,000 shares for tax and estate purposes in accordance with the Medifast, Inc. Insider Trading Policy as outlined below in “Item 5 – Other Information.” In addition, over the next 18 months Shirley Mac Donald, the wife of the Chairman of the Board, may sell up to approximately 100,000 shares of Medifast, Inc. common stock for estate planning and retirement purposes. The Chairman of the Board, Bradley T. Mac Donald may donate 75,000 shares to the MacDonald Charitable Remainder Trust and/or the Mac Donald Family foundation in 2009 and 2010 to support the Company's and the family’s charitable giving program.

The following summarizes the stock option activity for the Six Months ended June 30, 2009:

| | Shares | Weighted Average Exercise Price | Weighted Average Contractual Term (Years) |
|---|---|---|---|
| Outstanding, December 31, 2008 | 143,334 | 3.00 | |
| Options granted | | | |
| Options reinstated | | | |

| | | | |
|---|---|---|---|
| Options exercised | | | |
| Options forfeited or expired | | | |
| | | | |
| Outstanding June 30, 2009 | 143,334 | 3.00 | 0.83 |
| Options exercisable, June 30, 2009 | 143,334 | 3.00 | 0.83 |
| | | | |
| Options available for grant at June 30, 2009 | 1,079,166 | | |

## 14. Reclassifications

Certain amounts for the quarter ended June 30, 2008 have been reclassified to conform to the presentation of the June 30, 2009 amounts. The reclassifications have no effect on net income for the quarters ended June 30, 2009 and 2008.

## 15. Subsequent Events

On July 2, 2009, Medifast, Inc., a Delaware corporation, established a $5 million unsecured line of credit with Bank of America. Borrowings under the line of credit facility will bear interest at LIBOR + 175 basis points and credit is available for a period of one year. The line of credit may be used for general working capital requirements and for general corporate needs of Medifast, Inc.

On July 2, 2009, Medifast, Inc. also received a 3 year unsecured term loan with a 5 year amortization from Bank of America to repay the $2.7 million balance on its Merrill Lynch line of credit that expired on July 1, 2009. The interest rate is at LIBOR + 200 basis points.

## 16. Business Segments

Operating segments are components of an enterprise about which separate financial information is available that is regularly reviewed by the chief operating decision maker about how to allocate resources and in assessing performance. The Company has two reportable operating segments: Medifast and All Other. The Medifast reporting segment consists of the following distribution channels: Medifast Direct, Take Shape for Life, and Doctors. The All Other reporting segments consist of Medifast Weight Control Centers Corporate and Franchise, and the Company's parent company operations.

The accounting policies of the segments are the same as those of the Company. The presentation and allocation of assets, liabilities and results of operations may not reflect the actual economic costs of the segments as stand-alone businesses. If a different basis of allocation were utilized, the relative contributions of the segments might differ, but management believes that the relative trends in segments would likely not be impacted.

The following tables present segment information for the three and six months June 30, 2009 and 2008:

| | Three Months Ended June 30, 2009 | | | |
|---|---|---|---|---|
| | Medifast | All Other | Eliminations | Consolidated |
| Revenues, net | $ 36,756,000 | $ 3,957,000 | | $ 40,713,000 |
| Cost of Sales | 8,938,000 | 813,000 | | 9,751,000 |
| Other Selling, General and Adminstrative Expenses | 21,750,000 | 3,148,000 | | 24,898,000 |
| Depreciation and Amortization | 1,052,000 | 256,000 | | 1,308,000 |
| Interest (net) | (4,000) | 1,000 | | (3,000) |
| Provision for income taxes | 1,760,000 | - | | 1,760,000 |
| Net income (loss) | $ 3,260,000 | $ (261,000) | | $ 2,999,000 |
| Segment Assets | $ 37,744,000 | $ 20,045,000 | | $ 57,789,000 |

| | Three Months Ended June 30, 2008 | | | |
|---|---|---|---|---|
| | Medifast | All Other | Eliminations | Consolidated |
| Revenues, net | $ 25,503,000 | $ 2,034,000 | | $ 27,537,000 |
| Cost of Sales | 6,297,000 | 380,000 | | 6,677,000 |
| Other Selling, General and Adminstrative Expenses | 15,510,000 | 1,820,000 | | 17,330,000 |
| Depreciation and Amortization | 915,000 | 247,000 | | 1,162,000 |
| Interest (net) | 9,000 | 35,000 | | 44,000 |
| Provision for income taxes | 752,000 | - | | 752,000 |
| Net income (loss) | $ 2,020,000 | $ (448,000) | | $ 1,572,000 |
| Segment Assets | $ 28,397,000 | $ 20,818,000 | | $ 49,215,000 |

| | Six Months Ended June 30, 2009 | | | |
|---|---|---|---|---|
| | Medifast | All Other | Eliminations | Consolidated |
| Revenues, net | $ 67,490,000 | $ 6,903,000 | | $ 74,393,000 |
| Cost of Sales | 16,308,000 | 1,497,000 | | 17,805,000 |
| Other Selling, General and Adminstrative Expenses | 39,530,000 | 5,786,000 | | 45,316,000 |
| Depreciation and Amortization | 2,042,000 | 494,000 | | 2,536,000 |
| Interest (net) | (4,000) | 5,000 | | 1,000 |
| Provision for income taxes | 3,251,000 | - | | 3,251,000 |
| Net income (loss) | $ 6,363,000 | $ (879,000) | | $ 5,484,000 |
| Segment Assets | $ 37,744,000 | $ 20,045,000 | | $ 57,789,000 |

| | Six Months Ended June 30, 2008 | | | |
|---|---|---|---|---|
| | Medifast | All Other | Eliminations | Consolidated |
| Revenues, net | $ 48,983,000 | $ 3,723,000 | | $ 52,706,000 |
| Cost of Sales | 12,024,000 | 753,000 | | 12,777,000 |
| Other Selling, General and Adminstrative Expenses | 29,755,000 | 3,467,000 | | 33,222,000 |
| Depreciation and Amortization | 1,757,000 | 484,000 | | 2,241,000 |
| Interest (net) | 20,000 | 89,000 | | 109,000 |
| Provision for income taxes | 1,420,000 | - | | 1,420,000 |
| Net income (loss) | $ 4,007,000 | $ (1,070,000) | | $ 2,937,000 |

| | | | | |
|---|---|---|---|---|
| Segment Assets | $ 28,397,000 | $ 20,818,000 | | $ 49,215,000 |

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Management Discussion and Analysis of
Financial Condition and Results of Operations

Except for the historical information contained herein, this Report on Form 10-Q contains certain forward-looking statements that involve substantial risks and uncertainties. When used in this Report, the words “anticipate,” “believe,” “estimate,” “expect” and similar expressions, as they relate to Medifast, Inc. or its management, are intended to identify such forward-looking statements. The Company’s actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Accordingly, there is no assurance that the results in the forward-looking statements will be achieved.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. Our significant accounting policies are described in Note 2 of the consolidated financial statements of our annual 10-K as of December 31, 2008.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Management develops, and changes periodically, these estimates and assumptions based on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Management considers the following accounting estimates to be the most critical in preparing our consolidated financial statements. These critical accounting estimates have been discussed with our audit committee.

Revenue Recognition. Revenue is recognized net of discounts, rebates, promotional adjustments, price adjustments, returns and other potential adjustments upon shipment and passing of risk to the customer and when estimates of are reasonably determinable, collection is reasonably assured and the Company has no further performance obligations.

Impairment of Fixed Assets and Intangible Assets. We continually assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Judgments regarding the existence of impairment indicators are based on legal factors, market conditions and our operating performance. Future events could cause us to conclude that impairment indicators exist and the carrying values of fixed and intangible assets may be impaired. Any resulting impairment loss would be limited to the value of net fixed and intangible assets.

Income Taxes. In the preparation of consolidated financial statements, the Company estimates income taxes based on diverse legislative and regulatory structures that exist in jurisdictions where the company conducts business. Deferred income tax assets and liabilities represent tax benefits or obligations that arise from temporary differences due to differing treatment of certain items for accounting and income tax purposes. The Company evaluates deferred tax assets each period to ensure that estimated future taxable income will be sufficient in character amount and timing to result in their recovery. A valuation allowance is established when management determines that it is more likely than not that a deferred tax asset will not be realized to reduce the assets to their realizable value. Considerable judgments are required in establishing deferred tax valuation allowances and in assessing probable exposures related to tax matters. The Company’s tax returns are subject to audit and local taxing authorities that could challenge the company’s tax positions. The Company believes it records and/or discloses such potential tax liabilities as appropriate and has reasonably estimated its income tax liabilities and recoverable tax assets.

Allowance for doubtful accounts.  In determining the adequacy of the allowance for doubtful accounts, we consider a number of factors including the aging of the receivable portfolio, customer payment trends, and financial condition of the customer, industry conditions and overall credibility of the customer.  Actual amounts could differ significantly from our estimates.

General

Six Months Ended June 30, 2009 and June 30, 2008

Revenue: Revenue increased to $74.4 million for the first six months of 2009 compared to $52.7 million for the first six months of 2008, an increase of $21.7 million or 41%. The Take Shape for Life sales channel accounted for 58% of total revenue, direct marketing channel accounted for 31%, brick and mortar clinics 10%, and doctors 1%. Take Shape for Life sales, which are fueled by increased customer product sales as a result of an increase in active health coaches increased by 96% compared to the first six months of 2008. As compared to the first six months of 2008, the direct marketing sales channel, which is fueled primarily by consumer advertising, decreased revenues by approximately 8% year-over year, however, the advertising dollars spent were 15% less than the the first six months of 2008 as the Company continues to focus on more effective advertising spend. The Medifast Weight Control Centers increased sales by 93% due to the opening of new corporate and franchise locations and improvement in same store sales.

Take Shape for Life revenue increased 96% to $42.9 million compared with $21.9 million in the first six months of 2008. Growth in revenues for the segment were driven by increased customer product sales as a result of an increase in active health coaches. The number of active health coaches during the second quarter increased to approximately 4,650 compared with 2,800 during the period a year ago, an increase of 66% and up from 4,000 at the close of the first quarter of 2009. We continue to see the benefits of a physician-lead network of coaches that are able to support their clients in their weight-loss efforts. In today’s environment where trust and personal recommendations are becoming a more important component in consumer purchasing decisions, the Take Shape for Life model of one-on-one communication continues to excel. Take Shape for Life customers who have utilized the Medifast products and programs and successfully have addressed their body weight and health issues are increasingly choosing to become active health coaches. Becoming a health coach is a business opportunity that has a low cost of start-up and requires no holding of inventory as all orders are shipped to the end consumer. In the current economic environment, many people are looking for supplemental income to assist in paying the car payment or mortgage, and becoming a health coach allows for supplemental income in the form of a commission compensation on product sales and supporting the customer needs by providing education on the program and support to customers ordering through Take Shape for Life, and more importantly the ability to help others regain their health through the use of clinically proven Medifast products.

The Medifast Weight Control Centers, which represent approximately 10% of the Company’s overall revenues, are currently operating in twenty four corporate locations in Austin, Dallas, Houston, and Orlando, and eleven franchise locations. In the first six months of 2009, the Company experienced revenue growth of 93% versus the same time period last year. The average monthly sales per clinic increased to $42,000 for the first six months of 2009 compared to $40,000 a year ago. In the expanding Dallas, TX market, the average monthly revenue per clinic is approximately $54,000. In the second quarter of 2009, the Company opened three additional corporately owned centers in the Austin, TX market. In the third and fourth quarter of 2009, the Company plans on opening seven to ten additional corporately owned clinics in existing markets.

Overall, selling, general and administrative expenses increased by $12.3 million as compared to the first six months of 2008. As a percentage of sales, selling, general and administrative expenses decreased to 64.3% versus 67.2% in the first six months of 2008, which lead to a 76% increase in diluted earnings per share in the first six months of 2009 versus prior year. Take Shape for Life commission expense, which is completely variable based upon product revenue, increased by approximately $8.9 million as the Company showed sales growth of 96% as compared to the first six months of 2008. Salaries and benefits increased by approximately $1.6 million in the first six months of 2009 as compared to last year. The increase includes the hiring of additional expertise in critical areas such as Take Shape for Life and the Medifast Weight Control Centers in the second half of 2008 which have greatly impacted revenue growth in 2009. In addition, the opening of eight new corporately owned clinics in the Houston, TX market, two in the Dallas, TX market, and three in the Austin, TX market also required the hiring of additional center managers and support staff. Areas that also experienced additional staffing due to the 41% sales growth include manufacturing, distribution, call center, and IT. Advertising expense for the first six months of 2009 was approximately $8.8 million compared to approximately $10.4 million for the same period last year, a decrease of $1.6 million or 15%. Communication expense increased by $150,000 and other expenses increased by $1.2 million which included items such as depreciation, amortization, credit card processing fees, charitable contributions, and property taxes. Operating expenses increased by $750,000 which primarily resulted from additional printing expense for our direct to consumer postcard mailings, printed materials included in each product shipment, as well as maintenance, repairs, and supplies for our manufacturing and distribution facilities. Office expense increased by $500,000 and stock compensation expense increased by $773,000 as additional restricted shares were issued to key executives and Board members in the third and fourth quarters of 2008, as well as the second quarter of 2009 that will be vesting over a five year term.

Costs and Expenses: Cost of revenue increased $5 million to $17.8 million for the first six months of 2009 from $12.8 million for the first six months of 2008. As a percentage of sales, gross margin increased to 76.1% from 75.8% in the six months of 2008. The margin improved slightly due to the addition of efficient new machinery and process improvements achieved in our vertically integrated business model.

Income taxes: In the first six months of 2009, the Company recorded $3,251,000 in income tax expense, which represents an annual effective rate of 37.2%. The tax rate increased due to an increase in the Maryland state income tax rate as well as timing differences on amortization expense on our intangible assets between book and tax financials that increased our tax expense in 2009. For the first six months of 2008, we recorded income tax expense of $1,420,000 which reflected an estimated annual effective tax rate of 32.6%. The Company anticipates a tax rate of approximately 36-38% in 2009.

Net income: Net income was approximately $5.5 million for the first six months of 2009 as compared to approximately $2.9 million for the first six months of 2008, an increase of 87%. Pre-tax profit as a percent of sales increased to 11.7% in the first six months of 2009 as compared to 8.3% in 2008. The improved profitability in the first six months of 2009 is due to sales growth in the Take Shape for Life division and Medifast Weight Control Centers as well as improved advertising effectiveness in the Medifast Direct Marketing sales channel, gross margin improvement as well as leveraging the fixed costs associated with our vertically-integrated support structure.

Three Months Ended June 30, 2009 and June 30, 2008

Revenue: Revenue increased to $40.7 million in the second quarter of 2009 compared to $27.5 million in the second quarter of 2008, an increase of $13.2 million or 48%. The Take Shape for Life sales channel accounted for 59% of total revenue, direct marketing channel accounted for 29%, brick and mortar clinics 10%, and doctors 2%. Take Shape for Life sales, which are fueled by increased customer product sales as a result of an increase in active health coaches increased by 98% compared to the second quarter of 2008. As compared to the second quarter of 2008, the direct marketing sales channel, which is fueled primarily by consumer advertising, decreased revenues by approximately 1% year-over year, however, the advertising dollars spent were 16% less than the second quarter of 2008 as the Company continues to focus on more effective advertising spend. The Medifast Weight Control Centers increased sales by 111% due to the opening of new corporate and franchise locations and improvement in same store sales.

Take Shape for Life revenue increased 98% to $24 million compared with $12.1 million in the comparable quarter of 2008. Growth in revenues for the segment were driven by increased customer product sales as a result of an increase in active health coaches. The number of active health coaches during the second quarter increased to approximately 4,650 compared with 2,800 during the period a year ago, an increase of 66% and up from 4,000 at the close of the first quarter of 2009. We continue to see the benefits of a physician-lead network of coaches that are able to support their clients in their weight-loss efforts. In today's environment where trust and personal recommendations are becoming a more important component in consumer purchasing decisions, the Take Shape for Life model of one-on-one communication continues to excel. Take Shape for Life customers who have utilized the Medifast products and programs and successfully have addressed their body weight and health issues are increasingly choosing to become active health coaches. Becoming a health coach is a business opportunity that has a low cost of start-up and requires no holding of inventory as all orders are shipped to the end consumer. In the current economic environment, many people are looking for supplemental income to assist in paying the car payment or mortgage, and becoming a health coach allows for supplemental income in the form of a commission compensation on product sales and supporting the customer needs by providing education on the program and support to customers ordering through Take Shape for Life, and more importantly the ability to help others regain their health through the use of clinically proven Medifast products.

The Medifast Weight Control Centers, which represent approximately 10% of the Company's overall revenues, are currently operating in twenty four corporate locations in Austin, Dallas, Houston, and Orlando, and eleven franchise centers. In the second quarter of 2009, the Company experienced revenue growth of 111% versus the same time period last year. The average monthly sales per clinic increased to $45,000 in the second quarter of 2009 compared to $41,000 a year ago, and increase of 10%. In the expanding Dallas, TX market, the average monthly revenue per clinic in the second quarter of 2009 was approximately $57,000. In the second quarter of 2009, the Company opened three additional corporately owned centers in the Austin, TX market. In the third and fourth quarter of 2009, the Company plans on opening seven to ten additional corporately owned clinics in existing markets.

Overall, selling, general and administrative expenses increased by $7.7 million as compared to the second quarter of 2008. As a percentage of sales, selling, general and administrative expenses decreased to 64.3% versus 67% in the second quarter of 2008, which lead to an 82% increase in diluted earnings per share in the second quarter of 2009 versus prior year. Take Shape for Life commission expense, which is completely variable based upon revenue, increased by approximately $5.1 million as the Company showed sales growth of 98% as compared to the second quarter of 2008. Salaries and benefits increased by approximately $950,000 in the second quarter of 2009 as compared to last year. The increase includes the hiring of additional expertise in critical areas such as Take Shape for Life and the Medifast Weight Control Centers in the second half of 2008 which have greatly impacted revenue growth in 2009. In addition, the opening of eight new corporately owned clinics in the Houston, TX market, two in the Dallas, TX, and two in the Austin, TX market also required the hiring of additional center managers and support staff. Areas that also experienced additional staffing due to the 48% sales growth in the second quarter of 2009 include manufacturing, distribution, call center, and IT. Advertising expense for the second quarter of 2009 was approximately $4.5 million compared to approximately $5.2 million for the same period last year, a decrease of $700,000 or 16%. Communication expense, increased by $250,000 and other expenses increased by $700,000 which included items such as depreciation, amortization, credit card processing fees, charitable contributions, and property taxes. Operating expenses increased by $500,000 which primarily resulted from additional printing expense for our direct to consumer postcard mailings, printed materials included in each product shipment, as well as maintenance, repairs, and supplies for our manufacturing and distribution facilities. Office expense increased by $400,000 and stock compensation expense increased by $491,000 as additional restricted shares were issued to key executives and Board members in the third and fourth quarters of 2008 as well as the second quarter of 2009 that will be vesting over a five year term.

Costs and Expenses: Cost of revenue increased $3.1 million to $9.8 million in the second quarter of 2009 from $6.7 million in the second quarter of 2008. As a percentage of sales, gross margin increased to 76% from 75.8% in the second quarter of 2008. The margin improved slightly due to the addition of efficient new machinery and process improvements achieved in our vertically integrated business model.

Income taxes: In the second quarter of 2009, the Company recorded $1,760,000 in income tax expense, which represents an annual effective rate of 37%. The tax rate increased due to an increase in the Maryland state income tax rate as well as timing differences on amortization expense on our intangible assets between book and tax financials that increased our tax expense in 2009. In the second quarter of 2008, we recorded income tax expense of $752,000 which reflected an estimated annual effective tax rate of 32.4%. The Company anticipates a tax rate of approximately 36-38% in 2009.

Net income: Net income was approximately $3 million in the second quarter of 2009 as compared to approximately $1.6 million in the second quarter of 2008, an increase of 89%. Pre-tax profit as a percent of sales increased to 11.7% in the second quarter of 2009 as compared to 8.4% in 2008. The improved profitability in the second quarter of 2009 is due to sales growth in the Take Shape for Life division and Medifast Weight Control Centers as well as improved advertising effectiveness in the Medifast Direct Marketing sales channel, gross margin improvement as well as leveraging the fixed costs associated with our vertically-integrated support structure.

SEGMENT RESULTS OF OPERATIONS

Net Sales by Segment for the Three Months Ended June 30,

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Segments | Sales | % of Total | Sales | % of Total |
| Medifast | $ 36,756,000 | 90% | $ 25,503,000 | 93% |
| All Other | 3,957,000 | 10% | 2,034,000 | 7% |
| Total Sales | $ 40,713,000 | 100% | $ 27,537,000 | 100% |

Net Sales by Segment for the Six Months Ended June 30,

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Segments | Sales | % of Total | Sales | % of Total |
| Medifast | $ 67,490,000 | 91% | $ 48,983,000 | 93% |
| All Other | 6,903,000 | 9% | 3,723,000 | 7% |
| Total Sales | $ 74,393,000 | 100% | $ 52,706,000 | 100% |

Three Months Ended June 30, 2009 and June 30, 2008

Medifast Segment: The Medifast reporting segment consists of the sales of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the “Condensed Consolidated Results of Operations” management discussion for the three months ended June 30, 2009 and 2008 above.

All Other Segment: The All Other reporting segment consists of the sales of Medifast Weight Control Centers and Medifast Weight Control Franchise Centers. Sales increased by $1,923,000 year-over year for the three month period ended June 30, 2009. Sales increased in the Medifast Weight Control Centers, and Franchise Centers due to the opening of ten new corporate centers in 2008, and three in the second quarter of 2009 in Austin, Texas and the opening of eleven new franchise centers at the end of 2008 and into the first six months of 2009. In addition, the Dallas market continues to mature with the average clinic generating $57,000 per month in sales in the second quarter of 2009. The Company is continuing to focus on improved advertising effectiveness, improved closing rates on walk-in sales, as well as the hiring of more experienced clinic operators to manage the clinics, and improved efficiencies in operation of the clinics. The Company now has twenty four corporately owned clinics, compared to seventeen clinics in operation at the end of the second quarter of 2008. The Company also has eleven franchisee centers in operation.

Six Months Ended June 30, 2009 and June 30, 2008

Medifast Segment: The Medifast reporting segment consists of the sales of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the "Condensed Consolidated Results of Operations" management discussion for the six months ended June 30, 2009 and 2008 above.

All Other Segment: The All Other reporting segment consists of the sales of Medifast Weight Control Centers and Medifast Weight Control Franchise Centers. Sales increased by $3,180,000 year-over year for the six month period ended June 30, 2009. Sales increased in the Medifast Weight Control Centers, and Franchise Centers due to the opening of ten new corporate centers in 2008, and three in the second quarter of 2009 in Austin, Texas, and the opening of eleven new franchise centers at the end of 2008 and first six months of 2009. In addition, the Dallas market continues to mature with the average clinic generating $54,000 per month in sales in the first six months of 2009. The Company is continuing to focus on improved advertising effectiveness, improved closing rates on walk-in sales, as well as the hiring and training of more experienced clinic operators to manage the clinics, and improved efficiencies in operation of the clinics. The Company now has twenty four corporately owned clinics, compared to seventeen clinics in operation at the end of the second quarter of 2008. The Company also has eleven franchisee centers in operation.

Net Profit by Segment for the Three Months Ended June 30,

| Segments | 2009 Profit | 2009 % of Total | 2008 Profit | 2008 % of Total |
|---|---|---|---|---|
| Medifast | $ 3,260,000 | 109% | $ 2,020,000 | 128% |
| All Other | (261,000) | -9% | (448,000) | -28% |
| Total Net Profit | $ 2,999,000 | 100% | $ 1,572,000 | 100% |

Net Profit by Segment for the Six Months Ended June 30,

| Segments | 2009 Profit | 2009 % of Total | 2008 Profit | 2008 % of Total |
|---|---|---|---|---|
| Medifast | $ 6,363,000 | 116% | $ 4,007,000 | 136% |
| All Other | (879,000) | -16% | (1,070,000) | -36% |
| Total Net Profit | $ 5,484,000 | 100% | $ 2,937,000 | 100% |

Three Months Ended June 30, 2009 and June 30, 2008

Medifast Segment: The Medifast reporting segment consists of the profits of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the "Condensed Consolidated Results of Operations" management discussion for the three months ended June 30, 2009 and 2008 above. See footnote 16, "Business Segments" for a detailed breakout of expenses.

All Other Segment: The All Other reporting segment consists of the profit or loss of Medifast Weight Control Centers, Medifast Weight Control Franchise Centers, and corporate expenses related to the parent company operations. Year-over-year, the loss in the All Other segment decreased by $187,000. The Medifast Weight Control

Centers, and Franchise Centers showed an increase in net profitability year-over-year of $598,000. The increase in profitability was due to opening of ten new corporately owned centers in 2008, three new centers in 2009 in the Austin, Texas market, and opening new franchise centers at the end of 2008 and first six months of 2009. The increase in the total number of corporate clinics to twenty four and eleven operating franchise centers led to additional sales and profitability. Medifast Corporate expenses increased by $411,000 year-over-year. Corporate expenses include items such as auditors' fees, attorney's fees, stock compensation expense and corporate governance related to NYSE, Sarbanes Oxley, and SEC regulations. See footnote 16, "Business Segments" for a detailed breakout of expenses.

Six Months Ended June 30, 2009 and June 30, 2008

Medifast Segment: The Medifast reporting segment consists of the profits of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the "Condensed Consolidated Results of Operations" management discussion for the six months ended June 30, 2009 and 2008 above. See footnote 16, "Business Segments" for a detailed breakout of expenses.

All Other Segment: The All Other reporting segment consists of the profit or loss of Medifast Weight Control Centers, Medifast Weight Control Franchise Centers, and corporate expenses related to the parent company operations. Year-over-year, the loss in the All Other segment decreased by $191,000. The Medifast Weight Control Centers, and Franchise Centers showed an increase in net profitability year-over-year of $810,000. The increase in profitability was due to opening of ten new corporately owned centers in 2008, three new centers in 2009 in the Austin, Texas market, and opening new franchise centers at the end of 2008 and early 2009. The increase in the total number of corporate clinics to twenty four and eleven operating franchise centers led to additional sales and profitability. Medifast Corporate expenses increased by $619,000 year-over-year. Corporate expenses include items such as auditors' fees, attorney's fees, stock compensation expense, and corporate governance related to NYSE, Sarbanes Oxley, and SEC regulations. See footnote 16, "Business Segments" for a detailed breakout of expenses.

Seasonality

The Company's weight management products and programs have historically been subject to seasonality. Traditionally the holiday season in November/December of each year is considered poor for diet control products and services. January and February generally show increases in sales, as these months are considered the commencement of the "diet season." In 2009, seasonality has not been a significant factor. This is largely due to the increase in the consumer's awareness of the overall health and nutritional benefits accompanied with the use of the Company's product line. As consumers continue to increase their association of nutritional weight loss programs with overall health, seasonality will continue to decrease.

Inflation

Inflation generally affects us by increasing the costs of labor, overhead, and raw material and packaging costs. The impact of inflation on our financial position and results of operations was minimal during the second quarter of 2009.

Item 5. Other Information

Litigation:

There is no pending or threatened litigation.

Other Matters:

An Independent Committee of the Board of Directors of Medifast was constituted to review the public allegations of a third party "Convicted Felon" on his website pertaining to alleged illegal activities of Take Shape for Life, a Direct Selling Subsidiary of Medifast Inc. Other public Direct Selling Companies have been attacked by this individual and his network of associates using the same blueprint of allegations. These public allegations were made in mid-February and were immediately followed by significant short selling and short selling option puts that shaved over $30 million from the Market Capitalization of Medifast. The company has demanded that this third party take down its website information containing false information or be subject to appropriate legal action.

Medifast, in a press release on February 17th, 2009, responded to the False Claims in SEC File # 001-31573; Film #09617581. The Independent Committee appointed Chairman Mr. Barry B. Bondroff, CPA, an officer and director with Gorfine, Schiller & Gardyn, PA. Members are: Mr. George J. Lavin Esq, founding Partner of the law firm, Lavin, O'Neil, Ricci, Ceprone & Dispicio, who is an expert in Product Liability Law, Lt. Gen. Dennis M. McCarthy USMC (Ret.), Executive Director of the Reserve Officers Association of the United States and a licensed attorney, Capt. Joseph D. Calderone USNR (Ret.), chaplain and counselor of the Villanova University Law School, and Mr. Charles P. Connolly, former President and CEO of First Union Corp of PA and DE .

After an investigation of the facts and information developed to date the committee unanimously agreed that the allegations were false, misleading and or without merit.

Counsel forwarded three cease and desist demands by letter to Barry Minkow , a convicted felon, and FDI, of which Minkow/FDI confirmed receiving two. In addition, the Company has filed formal complaints with the NYSE, SEC, and ATTORNEY GENERAL OF MARYLAND to this time. Management as directed by the Board continues to monitor the situation and will continue to take appropriate action as it deems necessary.

Earnings per Share: The Company follows the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share." The calculation of basic and diluted earnings per share ("EPS") is reflected on the accompanying Condensed Consolidated Statement of Income.

Code of Ethics: In August of 2006, the Company updated its Code of Ethics by which directors, officers and employees commit and undertake to personal and corporate growth, dedicate themselves to excellence, integrity and responsiveness to the marketplace, and work together to enhance the value of the Company for the shareholders, vendors, and customers.

Trading Policy: In March 2003, the Company implemented a Trading Policy whereby if a director, officer or employee has material non-public information relating to the Company, neither that person nor any related person may buy or sell securities of the Company or engage in any other action to take advantage of, or pass on to others, that information. Additionally, on October 16, 2006 the Board of Directors approved an updated trading policy in which insiders may purchase or sell MED securities if such purchase or sale is made 7 days after or 14 days before an earnings announcement to include the 10-K or 10-Q in order to insure that investors have available the same information necessary to make investment decisions as insiders.

Evaluation of Disclosure Controls and Procedures:

The Securities and Exchange Commission defines the term "disclosure controls and procedures" to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, as of the end of the period covered by this report, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures at the end of the period covered by this report were effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting:

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Forward Looking Statements: Some of the information presented in this quarterly report constitutes forward-looking statements within the meaning of the private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about management's expectations for fiscal year 2003 and beyond, are forward-looking statements and involve various risks and uncertainties. Although the Company believes that its expectations are based on reasonable assumptions within the bounds of its knowledge, there can be no assurance that actual results will not differ materially from the Company's expectations. The Company cautions investors not to place undue reliance on forward-looking statements which speak only to management's experience on this data.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Medifast, Inc.

BY: /s/ MICHAEL S. MCDEVITT  August 6, 2009
Michael S. McDevitt
Chief Executive Officer and Chief Financial Officer
(principal executive officer and principal financial officer)

Index to Exhibits

| Exhibit Number | Description of Exhibit |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |