MEDIFAST INC
Form 10-K/A
September 06, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K/A
Amendment No. 1

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

Commission File No. 000-23016

MEDIFAST, INC.

DELAWARE Incorporation State	13-3714405 Tax Identification number
11445 CRONHILL DRIVE, OWINGS MILLS, MD Principal Office Address	21117

Phone (410) 581-8042

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, PAR VALUE $.001 PER SHARE

New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark 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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2006, based upon the closing price of $17.87 per share on the American Stock Exchange on that date, was $208,000,000.

As of March 14, 2007, the Registrant had 13,643,998 shares of Common Stock outstanding.

Explanatory Note

This Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 is being filed for the purpose of adding to or clarifying our Significant Accounting Policies, financial statements, footnotes, item 7A disclosure, Management Discussion and Analysis, and adding key management contracts as exhibits to the financial statements. In regard to our Significant Accounting Policies we have included detail on our deferred compensation plan. We have also provided additional information on intangible assets to include the useful lives each type of intangible asset is being amortized over as well as additional information on how the Company tests for impairment. The Company has also clarified its revenue recognition policy.

Our Annual Report on Form 10-K for the year ended December 31, 2006 initially filed with the Securities and Exchange Commission on March 16, 2007 is being filed to reflect restatements of Medifast, Inc.'s Consolidated Balance Sheets as of December 31, 2006 and 2005, and the related Consolidated Statements of Income, Cash Flows, and Stockholders' Equity for each of the three years in the period ended December 31, 2006. These restatements reflect the adjustment detailed in Note 16 to the Consolidated Financial Statements relating to amortization expense on a customer list acquired in December of 2004.

The Statement of Income has been restated to include stock compensation expense and the loss on Consumer Choice Systems, Inc. as part of selling, general, and administrative expenses. Previously, the expenses were included on the Statement of Income as other expense.

In the footnotes, the Company has included segment reporting footnote disclosure per Financial Accounting Standards Board Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company has added additional segment information to include 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 and Clinics. The All Other reporting segments consist of Hi-Energy and Medifast Weight Control Centers, the Company's parent company operations, as well as the Consumer Choice Systems, Inc. division which was sold in January of 2006.

The Company added Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" to provide disclosure of the interest rate risk associated with our debt instruments. Item 7, "Management Discussion and Analysis" has been updated to include additional detail on selling, general, and administrative expenses changes for the years ended December 31, 2004, 2005 and 2006.

The following sections of this report have been revised to reflect above restatements: Part II – Item 6-Selected Financial Data, Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 8 – Financial Statements and Supplementary Data and Item 9A – Controls and Procedures; and Part IV – Exhibits and Financial Statement Schedules. For the convenience of the reader, this Amendment No. 1 includes, in their entirety, those items in the Original filing not being amended and restated. Except as discussed above, we have not modified or updated the disclosure presented in the Original Annual Report. This Form 10-K/A does not reflect events that have occurred after the filing of the Original Annual Report or modify or update disclosures presented in the Original Annual Report affected by subsequent events. Accordingly, this Form 10-K/A should be read in conjunction with our filings made with the Securities and Exchange Commission ("SEC") subsequent to the date of the filing of the Original Annual Report.

In addition, in accordance with applicable SEC rules, this Form 10-K/A includes updated certifications from our Chief Executive Officer and Chief Financial Officer.

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PART I

ITEM 1. BUSINESS.

SUMMARY

Medifast, Inc. (the "Company", or "Medifast") is a Delaware corporation, incorporated in 1980. The Company's operations are primarily conducted through five of its wholly owned subsidiaries, Jason Pharmaceuticals, Inc. ("Jason"), Take Shape for Life, Inc. ("TSFL"), Jason Enterprises, Inc., Jason Properties, LLC and Seven Crondall, LLC. The Company is engaged in the production, distribution, and sale of weight management and disease management products and other consumable health and diet products. Medifast, Inc.'s product lines include weight and disease management, meal replacement and sports nutrition products manufactured in a modern, FDA approved facility in Owings Mills, Maryland.

MARKETS

Over the past 20 years the obesity rates in the United States have increased dramatically. According to a recent study, "Prevalence of Obesity and Overweight in the United States published in April 2006 in the Journal of American Medical Association almost 7 out of 10 adults in the U.S. are overweight or obese. Type 2 Diabetes is expected to increase by 165 % between 2000 and 2050 according to a study "Projection of diabetes burden through 2050: impact of change demography and disease prevalence in the U.S., published in Diabetes Care in 2001. In a study published in the Journal of the American Medical Association (JAMA) it was reported that in 2003-2004, 17.1% of U.S. children and adolescents were overweight and 32.2% of adults were obese. It is important to note the difference between overweight and obese. Obesity among adults is defined as a Body Mass Index (BMI) of 30 or higher; overweight is defined as a BMI of 25 to 30. The amount of overweight adolescents and children ages 6-19 years have more than tripled since 1980.

The CDC estimates that in the U.S. the associated costs with overweight and obesity reached $117 billion in 2000. The most common health problems associated with obesity are type II diabetes, coronary heart disease, hypertension and stroke, depression and certain forms of cancer. It's also estimated that poor nutrition and physical inactivity account for more than 300,000 premature deaths per year in the U.S.

A 2003 market research study concluded consumers spend about $39 billion per year trying to lose weight or prevent weight gain. This includes consumer spending on diet foods, medically supervised and commercial weight loss programs, diet books, appetite suppressants, fitness clubs, diet sodas, and videos and cassettes.

Distribution Channels

Medifast Direct - Medifast's primary distribution channel is the direct-to-consumer business. Here, customers have access to support from qualified nutritional practitioners and customer care representatives via telephone, e-mail and online chats. Medifast Direct offers a robust online web community and library for support, information and meal planning for weight loss and weight maintenance. This business is driven by an aggressive multi-media customer acquisition strategy that includes print, television, radio, and web advertising as well as public relations initiatives. In 2006, the Medifast Direct division focused on targeted marketing initiatives and enhancements to its customer support systems by upgrading its call center and nutrition support team to better serve its clients. In addition, Medifast also began using state of the art web technology which features customized meal planning and community components.

Take Shape for Life™ - Take Shape for Life is a physician led network of independent health coaches who are trained to provide coaching and support to client on Medifast programs. Health coaches are conduits to give clients the strategies and skills to successfully reach a healthy weight and then provide a road map to empower the individual to take control of their health. Take Shape for Life offers the exclusive BeSlim™ philosophy, which encourages long-term weight maintenance. Take Shape for Life also moves beyond the scope of weight loss to show customers how to achieve optimal health through the balance of body, mind, and finances. Take Shape for Life uses the high quality, medically validated products of Medifast as the platform to launch an integrity based lifelong health optimization program.

Program entrants are encouraged to consult with their primary care physician and a Take Shape for Life Health Coach to determine the Medifast program that is right for them. Health Coaches are supported, educated and qualified by The Health Institute, a training group staffed by Medifast professionals. Health Advisors obtain Medifast qualification based upon testing of their knowledge on Medifast products and programs.

Medifast Physicians and Clinics - Many Medifast physicians have implemented the Medifast program within their practice. These physicians carry an inventory of Medifast products and resell them to patients. They also provide appropriate medical monitoring, testing, and support for patients on the program. Medifast also offers Medifast physicians a home delivery program “Lifestyles” for their patients. The Lifestyles Program is a network of health care professionals who support patients on the Medifast program. Medifast offers physicians a dedicated website landing page and patients order products directly from the company online or through the call center. The Lifestyles medical practitioner ensures that each patient receives personalized attention throughout the weight loss program. Management estimates that more than 15,000 physicians nationwide have recommended Medifast as a treatment for their overweight patients since 1980, and over an estimated 1 million patients have used its’ products to lose and maintain their weight.

The Company offers an additional in-house support program to assist customers that are consulting their primary care physician. Customers have access to registered dieticians that provide program support and advice via a toll free telephone help line, by e-mail and online chats.

Medifast and Hi-Energy Weight Control Centers - In 2006, Medifast changed nine of its key corporately owned weight control centers to Medifast Weight Control Centers in Texas and Florida. The centers offer a new medically supervised model and a nationally advertised brand which encourages walk-ins and referrals from other Medifast business channels. In addition to offering a comprehensive Medifast program, the clinics offer customized patient counseling programs, Inbody ™ composition analysis as well as appetite suppression medications to customers who qualify. The Company intends to open additional corporately owned Medifast Weight Control Centers in a select market in 2007 in addition to franchising the model throughout the United States.

The Company continues to support the Hi-Energy licensees by providing marketing materials, ads, on-site trainings, fitness programs, nutritional programs and clinical operation materials and forms

THE MEDIFAST® BRAND

Medifast enriches lives by providing innovative choices for lasting health through products and programs. Medifast is physician recommended and clinically proven offering programs for weight management, weight maintenance and long term health through multiple channels of distribution. Medifast products are high quality, portion controlled meal replacement foods. In recent years, Medifast’s core products and programs have continued to expand over a wellness spectrum to include health management products including products specially formulated for people with diabetes as well as products for women’s health, joint health and coronary health.

While the entire Medifast line is Diabetic Friendly, Medifast has created products tailored to meet the needs of people with diabetes. Many Medifast Plus for Diabetics products have earned the coveted Seal of Approval from the Glycemic Research Institute. The line, designated as Low Glycemic, does not overly stimulate blood glucose and insulin and does not stimulate fat-storing enzymes. Products included in the Medifast Plus for Diabetics line consist of three delicious patented shakes, and two meal replacement bars.

Most Medifast products qualify to make the FDA’s heart healthy claim, “May Reduce the Risk of Heart Disease.” In order to make this claim, a product must contain at least 6.25 grams of soy protein per serving and be low in fat, saturated fat, and cholesterol. Unlike popular fad diets and herbal supplements, Medifast products are a safe, nutritionally balanced choice, offering gender specific formulas containing high protein and low carbohydrates, a soy protein source rather than animal protein source, and vitamin and mineral fortification. It is very difficult to meet the minimum recommended nutritional requirements on a low-calorie diet, but a dieter can easily meet these requirements using the nutrient dense Medifast brand of meal replacement food supplements.

Portion controlled, meal replacement weight management programs are continuing to gain popularity, as consumers search for a safe and effective solution that provides balanced nutrition, quick weight loss and valuable behavior modification education. In addition, consumers are becoming more aware of chronic diseases such as diabetes and coronary health.

Clinical Research Overview

Medifast uses both clinical research studies and retrospective analysis data from its Medifast clinics as the basis of its claim, “clinically proven.” An overview of Medifast clinical research is provided below.

Crowell, M.D. & Cheskin L.J, The Johns Hopkins University School of Medicine. Multicenter Evaluation of Health Benefits and Weight Loss on the Medifast Weight Management Program.

The purpose of this study was to retrospectively evaluate the efficacy of a medically supervised, protein-supplemented modified fasting program (Medifast) for weight reduction and to evaluate the impact of weight reduction on coexisting health problems. The results of the study concluded that medically-supervised, protein-sparing modified fasts offer a safe and effective means of weight reduction and are accompanied by significant improvements in coexisting health problems. Of samples taken, males lost an average of 67 lbs and females lost an average of 47 lbs during fasting. The study found significant reductions in systolic and diastolic blood pressure, total cholesterol and triglycerides, as well as the normalizing of blood pressure and hypertensive patients.

Cheskin, MD, FACP, Mitchell, MS, Lewis, BA, Jhaveri, MD Yep, BS. Johns Hopkins University School of Bloomberg Public Health. Efficacy of 2 Diet Plans Designed for People with Type 2 Diabetes on Weight and Health Measures

The purpose of this study was to evaluate the efficacy of the standard ADA (American Diabetic Association) self-selected diet (SD) vs. a portion controlled diabetic food diet (PCD) in obese patients with NIDDM. The study also evaluated not only the metabolic effects in the long term, but also compliance and any consequent medication changes in patients of the two weight loss regimens. (16-34 weeks of active weight loss, 52 weeks of maintenance) The meal replacements (Medifast) used in this study are soy-based products (bars, shakes, soups) that are considerably lower in sugar than their non-diabetic counterparts and other popular diet products on the market.

The results discussion is as follows. Significantly greater results were achieved after the initial 34-weeks of weight loss by participants in the PCD group in pounds and percent weight loss, insulin level and hemoglobin A1c. The PCD group also saw significant improvements within group in BMI, systolic BP, diastolic BP, waist/hip measurements, cholesterol, HDL triglycerides, glucose and percent body fat. Dropout rates were less in the PCD in both weight loss and weight maintenance. During weight loss, participants in the PCD group significantly decreased their use of medications to treat Type 2 DM. Participants in the PCD group also self-reported higher ease of compliance with the diet compared to the SD group (64.2% vs. 56.0%).

Researchers recommended that a PCD be considered for type 2 diabetics desiring weight loss, but that periodic use of SD during weight maintenance will not adversely affect weight loss efforts. The research supports that using a portion-controlled diet will produce comparable if not better outcomes in type 2 diabetics attempting to control their weight.

This study was presented at American Diabetes Association’s 65th Annual Scientific Session in San Diego, CA, June 11, 2005. The information was peer reviewed and printed in ADA’s Diabetes Journal as a written published abstract. Dr. Cheskin, the principle investigator is currently pursuing publication in a leading medical journal.

National Institutes of Health: Impaired Capacity to Lose Visceral Adipose Tissue During Weight Reduction in Obese Postmenopausal Women With the Trp64Arg B3- Adrenoceptor Gene Variant

This study examined whether women on a weight loss program who are carriers of a genetic variant (Trp64Arg) lose less visceral fat than women who do not have this gene. Participants entered a medically supervised weight loss program aimed at reducing body weight to less than 120% of ideal value. Food was self selected with dietitian supervision, with or without the inclusion of the TakeShape™, a Medifast brand modified fasting supplement.

Results from the study showed that reductions in body weight, BMI, total fat mass and fat-free mass were not significantly different between carriers and non-carriers of the variant. Both groups experienced weight reduction of 31-36.1 pounds, which the study identified as a significant weight loss effect.

A RCT Comparing Balanced Energy Deficit Diets With or Without Meal Replacements for Weight Loss and Maintenance Among Children Dieting Alone or With a Parent. Lawrence J. Cheskin, Lisa M. Davis, Andrea Hanlon-Mitola, Amy Mitchell, Ami Jhaveri, Mary Yep, Vanessa Mitchell. Johns Hopkins Bloomberg School of Public Health, Center for Human Nutrition, Department of International Health, Baltimore, MD 21205

The 18-month study, (6-month weight loss phase, 12-month maintenance phase) examined a joint parent-child dieting approach, as opposed to an individually based approach, to improve weight loss outcomes. It compares diet using Medifast meal replacements to a non-supplemented Food Guide pyramid based diet. Comparative points include, overall weight loss, compliance, palatability, dietary quality and dietary satisfaction. The study also examines whether children who lose weight-using Medifast meal replacements as an adjunct to a Food Guide-pyramid based diet achieve health benefits compared to baseline values and are these health benefits greater than those obtained following the reference diet.

The results of this study will be released in 2007.

Effectiveness of Medifast Supplements Combined with Obesity Pharmacotherapy: A Clinical Program Evaluation. Principle Investigators: Drs. Walker S.C. Poston, C. Keith Haddock, Jennifer E. Taylor, John Foreyt.

The purpose of the study is to evaluate the long-term impact of Medifast meal-replacement supplements combined with appetite suppressant medication (ASM) among participants who received a minimum of 12-weeks of treatment.

Results of this study will be released in 2007 and presented at the American Society of Bariatric Physicians annual meeting in May 2007. This study has also been submitted to a major medical journal for publication.

COMPETITION

There are many different kinds of diet products and programs within the weight loss industry. These include a wide variety of commercial weight loss programs, pharmaceutical products, weight loss books, self-help diets, dietary supplements, appetite suppressants and meal replacement shakes and bars. Some of Medifast’s top competitors are Jenny Craig, Nutrisystems, LA Weight Loss, eDiets, Herbalife, and Weight Watchers.

The Company has proven it can compete in this competitive market because its products have been clinically tested and proven in clinical studies conducted by researchers from Johns Hopkins University and other major institutions and have been safely and effectively used by customers and recommended by physicians for over 25 years. Medifast has been on the cutting edge of product development with soy based nutritional and weight management products since 1980. These products are formulated with high-quality, low-calorie, low-fat ingredients that provide alternatives to fad diets or medicinal weight loss remedies.

The Company’s diverse multi-channel distribution strategy makes the Medifast brand available through multiple support channels, which target different customer needs. Medifast practitioners offer Medifast to patients through wholesale or an innovative home delivery model and some practitioners choose to prescribe appetite suppression diet drugs to patients in conjunction with a Medifast based diet. Medifast Direct via the website and call center serves customers with free online support and community tools and access to nutritionists and customer service representatives. The Take Shape for Life division offers the personal support of a health coach that is often a person who has achieved success on the Medifast program and has turned their success into a business opportunity generating incremental revenue for the company through relationship marketing. Medifast Weight Control Centers offer a medically supervised and structured model for customers who prefer more accountability and personalized counseling on the program. Medifast Weight Control Centers also offer appetite suppression medications to patients who qualify in addition to a Medifast program to obtain desired results. The Medifast program alone is a mild ketogenic diet that naturally suppresses appetite and eliminates hunger without other therapies for most people.

PRODUCTS

The Company offers a variety of weight and disease management products under the Medifast® brand and for select private label customers. The Medifast line includes Medifast® 55 Shakes, Medifast® 70 Shakes, Medifast® Plus for Appetite Suppression Shakes, Medifast® Plus for Women’s Health Shakes, Medifast® Plus for Diabetics Shakes, Medifast® Plus for Joint Health Shakes, Medifast® Plus for Coronary Health Shakes, Medifast® Bars, Medifast® Creamy Soups, Medifast® Chicken Noodle Soup, Medifast® Chicken & Wild Rice Soup, Medifast® Minestrone Soup, Medifast® Beef Vegetable Stew, Medifast® Home-style Chili, Medifast® Oatmeal, Medifast® Pudding, Medifast® Scrambled Eggs, Medifast® Hot Cocoa, Medifast® Cappuccino, Medifast® Chai Latte, Medifast® Iced Teas, Medifast® Fruit Drinks, Medifast® Soy Crisps, Medifast® Crackers and Medifast® Fast Soups.

Medifast nutritional products are formulated with high-quality, low-calorie, low-fat ingredients. Many Medifast products are soy based and contain 24 vitamins and minerals, as well as other nutrients essential for good health. The

Company uses Solae® brand soy protein, which is a high-quality complete protein derived from soybeans.

Medifast brand awareness continues to expand through the Company's marketing campaigns, product development, line extensions, and the Company's emphasis on quality customer service, technical support and publications developed by the Company's marketing staff. Medifast products have been proven to be effective for weight and disease management in clinical studies conducted by researchers from the U.S. government and Johns Hopkins University. The Company has continued to develop its sales and marketing operations with qualified management and innovative programs. The Company's facility in Owings Mills, MD manufactures all powders and subcontracts the production of its Ready-to-Drink products and meal replacement bars.

NEW PRODUCTS

The Company expanded the Medifast product line in 2006 by introducing Medifast® Scrambled Eggs, Medifast® Vanilla Pudding, Medifast® Beef Vegetable Stew, and Medifast® Soy Crisps in Apple Cinnamon, Ranch and White Cheddar flavors. In addition to these great new additions, Medifast also reformulated all of its meal replacement bars to improve flavor and texture.

MARKETING

In 2006, the Company continued to build and leverage its core Medifast brand through multiple marketing strategies to its target audiences. Customer Acquisition strategies include advertising in print magazines, television commercials, and radio commercials. These mediums were used to target new customers by stressing Medifast's quick, easy and safe approach to weight management. The Company also developed comprehensive public relations campaigns throughout 2006 securing media coverage in national consumer and business media outlets including People Magazine, Forbes Magazine and CNBC. Also, direct mail campaigns and e-mail newsletters have been utilized to encourage and support existing customers.

Online advertising began in 2004 and included keyword search, banner ads, affiliate programs, and targeted direct email campaigns. The online advertising has been supported by Medifast's well designed, user-friendly website, which provides a wealth of information and customer support for easy ordering functionality. In 2006, the online community, meal planner and library, “My Medifast” was added as a free service to all customers. Also in 2006, the Company began sponsoring customer blogs on its website where customers can interact with other customers and ask questions before starting a Medifast program as well as to track their success on the Medifast program.

The Company launched a new and improved branding for its Take Shape for Life division in 2006 including revised logo, messaging, web design and support materials giving it a unique positioning as a division of Medifast focused on optimal health.

SALES

The Company’s Sales division handles three primary areas:

Physician and Clinic Sales— The sales team is responsible for prospecting larger medical accounts, clinics, hospitals, and HMOs. During 2006, the sales team attended a number of medical professional trade shows, which expanded Medifast's penetration of the clinical business segment.

Medifast Weight Control Centers- The brick and mortar clinics have Counselors that sell Medifast products and full service programs which include weekly one-on-one counseling sessions, medical monitoring and physician oversight.

Take Shape for Life— Provides a sales force of independent Health Advisors who support patients and their primary care physicians with a defined support program. Take Shape for Life is a support program that moves beyond the scope of weight loss to show customers how to achieve optimal health through the balance of body, mind, and finances.

MANUFACTURING

Jason Pharmaceuticals, Inc., the Company’s wholly owned manufacturing subsidiary, produces over 80% of the Medifast products in a state-of-the-art food and pharmaceutical-grade facility in Owings Mills, Maryland. Management purchased the plant in July 2002 for $3.4 million. The company has also invested in increasing production capacity with the purchase of two additional manufacturing lines and a larger capacity blender. The lines will significantly improve the company's production capability, while also improving its overall efficiencies.

The manufacturing facility has the capacity for significant increases to its production output with minimal capital expenditures. Adding additional shifts will enable the Company to produce enough products to generate over $250 million in sales.

Manufacturing processes, product labeling, quality control and equipment are subject to regulations and inspections mandated by the Food & Drug Administration (FDA), the Maryland State Department of Health and Hygiene, and the Baltimore County Department of Health. The plant strictly adheres to all GMP practices and has maintained its status as an "OU" (Orthodox Union) kosher-approved facility since 1982.

GOVERNMENTAL REGULATION HISTORY

The formulation, processing, packaging, labeling and advertising of the Company's products are subject to regulation by several federal agencies, but principally by the Food and Drug Administration (the "FDA"). The Company must comply with the standards, labeling and packaging requirements imposed by the FDA for the marketing and sale of foods and nutritional supplements. Applicable regulations prevent the Company from representing in its literature and labeling that its products produce or create medicinal effects or possess drug-related characteristics. The FDA could, in certain circumstances, require the reformulation of certain products to meet new standards, require the recall or discontinuation of certain products not capable of reformulation, or require additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling, and scientific substantiation. If the FDA believes the products are unapproved drugs or food additives, the FDA may initiate similar enforcement proceedings. Any or all such requirements could adversely affect the Company's operations and its financial condition.

To the extent that sales of foods and nutritional supplements may constitute improper trade practices or endanger the safety of consumers, the operations of the Company may also be subject to the regulations and enforcement powers of the Federal Trade Commission ("FTC"), and the Consumer Product Safety Commission. The Company's activities are also regulated by various agencies of the states and localities in which the Company's products are sold. The Company's products are manufactured and packaged in accordance with customers’ specifications and sold under their private labels both domestically and in foreign countries through independent distribution channels.

PRODUCT LIABILITY AND INSURANCE

The Company, like other producers and distributors of ingested products, faces an inherent risk of exposure to product liability claims in the event that, among other things, the use of its products results in injury. The Company maintains insurance against product liability claims with respect to the products it manufactures. With respect to the retail and direct marketing distribution of products produced by others, the Company's principal form of insurance consists of arrangements with each of its suppliers of those products to name the Company as beneficiary on each of such vendor's product liability insurance policies. The Company does not buy products from suppliers who do not maintain such coverage.

EMPLOYEES

As of December 31, 2006, the Company employed 265 full-time and contracted employees, of whom 84 were engaged in manufacturing, warehouse management, and shipping, and 180 in marketing, administrative, call center and corporate support functions. None of the employees are subject to a collective bargaining agreement with the Company.

INFORMATION SYSTEMS INFRASTRUCTURE

In November of 2005, the Company began an IT project to implement an Enterprise Resource Planning (ERP) solution to upgrade our technology infrastructure and improve manufacturing and business processes. The new IT infrastructure will enable the Company to handle additional business growth and improve the efficiencies across the business platform. The new ERP system went live in December of 2006 without incident.

AVAILABLE INFORMATION

All periodic and current reports, registration statements, code of conduct, code of ethics and other material that the Company is required to file with the Securities and Exchange Commission (“SEC”), including the Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 (the “1934 Act Reports”). These materials are available free of charge through the Company's investor relations page at www.medifastdiet.com . Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC. The Company's Internet web site and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

EXECUTIVE OFFICERS OF THE COMPANY

Name	**Age**	**Position**
Bradley T. MacDonald	59	Chief Executive Officer and Chairman of the Board of Directors
Michael S. McDevitt	28	President and Chief Financial Officer
Leo Williams	59	Executive Vice President
Margaret MacDonald	29	Senior Vice President of Operations
Brendan N. Connors	29	Vice President of Finance

Bradley T. MacDonald

Mr. MacDonald became Chairman of the Board and Chief Executive Officer of Medifast, Inc. on January 28, 1998. Mr. MacDonald was previously employed by the Company as its Chief Executive Officer from September 1996 to August 1997. In 2006, Mr. MacDonald was named "Entrepreneur of the Year" in consumer products for the State of Maryland. Prior to joining the Company, he was appointed as Program Director of the U.S. Olympic Coin Program of the Atlanta Centennial Olympic Games. From 1991 through 1994, Colonel MacDonald returned to active duty to be Deputy Director and Chief Financial Officer of the Retail, Food, Hospitality and Recreation Businesses for the United States Marine Corps. Prior thereto, Mr. MacDonald served as Chief Operating Officer of the Bonneau Sunglass Company, President of Pennsylvania Optical Co., Chairman and CEO of MacDonald and Associates, which had major financial interests in a retail drug, consumer candy, and pilot sunglass companies. Mr. MacDonald was national president of the Marine Corps Reserve Officers Association and retired from the United States Marine Corps Reserve as a Colonel in 1997, after 27 years of service. He has been appointed to the Defense Advisory Board for Employer Support of the Guard and Reserve (ESGR). Mr. MacDonald serves on the Board of Directors of the Wireless Accessories Group (OTCBB: WIRX). He is also on the Board of Directors of the Marine Corps Reserve Toys for Tots Foundation and is a Foundation Trustee of the Marine Reserve Association.

Michael S. McDevitt

Mr. McDevitt joined Medifast in 2002 as the Controller and was promoted to Vice President of Finance in January 2004. In March 2005, he was promoted to President and in January of 2006 was also named Chief Financial Officer. Prior to joining Medifast, Mr. McDevitt worked as a Financial Analyst for the Blackstone Group, an investment advisory firm based in New York, NY.

Leo Williams

Mr. Williams became Executive Vice President of Medifast, Inc. in January of 2004. Prior to joining Medifast, he was a Future Vehicles Marketing Plans Director for Ford Division sport utility vehicles and pickup trucks. A retired Marine Corps Reserve major general, he was ordered to active duty from October 2002 to September 2003 to serve as Deputy Director of the Marine Corps Combat Development Command. Mr. Williams is a Board of Director of the Marine Corps Reserve Toys for Tots Foundation and the Direct Selling Association.

Margaret MacDonald, MBA

Ms. MacDonald joined Medifast in 2000 as the Director of Sales and Administration. In 2002 she was promoted to VP of Operations and in 2004 promoted to Senior VP of Operations. In May of 2006, Ms. MacDonald received an Executive MBA from Loyola University. Prior to joining Medifast, Ms. MacDonald was a legal assistant at Carrington, Coleman, Sloman, and Blumenthal in Dallas, TX.

Brendan N. Connors, CPA

Mr. Connors joined Medifast as the Vice President of Finance in April of 2005. Prior to joining Medifast, Mr. Connors worked as a Senior Accountant at Wolf & Company P.C., a certified public accounting and consulting firm in Boston, MA.

ITEM 1A. RISK FACTORS

The following risk factors should be considered when reading this Annual Report on Form 10-K. If any of the events described below occurs, the Company's financial condition and operating results could be adversely affected.

Much of our growth and future profitability depends on the effectiveness of our advertising spend in the Direct to consumer channel.

Our marketing expenditures may not result in increased revenue or generate sufficient awareness of the program or the brand to the consumer. We may not be able to manage our advertising spend in a cost effective manner thereby increasing the cost to acquire a new customer to an elevated level that will decrease profits.

We may be subject to health related claims from our customers

A customer that suffers health problems may allege that the Medifast program contributed to the ailment. The Company is not currently the subject of any such claims, however, we would defend ourselves vigorously against such accusations. Regardless of the ultimate outcome, defending against such claims would be costly and could adversely affect our results of operations.

A competitor or new entrant into the market may develop a product and program similar to ours

Many of our competitors are significantly larger than us and have more financial resources to develop new products and programs. Our business could be affected if one of our competitors or a new entrant to the market develops similar products and programs through similar marketing channels. This could result in lower sales as well as pricing competition which could adversely affect the Company's results from operations.

New fad diets or pharmaceutical solutions could put us at a competitive disadvantage

The weight loss industry is subject to fad diets. The Atkins craze hit the U.S. a few years ago and had an impact on many weigh loss companies. Another fad diet could sweep the nation and have an adverse affect on our results of operations. In addition, pharmaceutical companies are constantly trying to develop safe, effective, drugs that lead to weight loss. If successful, many dieters could perceive this to be easier than the Medifast program and this would put us at a competitive disadvantage.

The business may grow too quickly for the current infrastructure to handle

If our advertising is extremely successful and our Take Shape for Life relationship marketing division sees a large uptick in recruitment we may be unable to handle the growth from an operational perspective. Increasing demands on our infrastructure could cause long hold times in the call center as well as delays on our website. In addition, there could be delays in order processing. packaging and shipping. We could run out of a majority of our inventory if growth exceeded our production capacity. If these difficulties are encountered in a period of hyper-growth then our operating results could suffer.

Our stock price may experience volatility due to fluctuations in our operating results

Our stock price is subject to fluctuations in response to our operating results, a competitor’s operating results, or our ability to meet stock analysts forecasts and our yearly revenue and EPS guidance. In addition, general trends in the weight-loss industry as a whole can have an affect on our stock price. These factors may have an adverse affect on the market price of our stock and cause it to fluctuate significantly.

We may be subject to claims that our employees are unqualified to provide weight loss counseling

Our Medifast Weight Control center division provides medical assessments and counseling to our customers. We may be subject to claims that our employees lack the proper training and qualifications to provide proper advice regarding weight loss. We could be subject to claims if an employee in one of our clinics gives inappropriate weight loss advice that results in health problems. Such claims could result in damage to our reputation and could have an affect on our operating results.

Negative publicity in the weight loss industry could adversely affect our business

If the press were to come out with negative media about low-calorie diets, meal replacements, or soy protein this could harm our business. Even if not directed at Medifast, this perception could be instilled in our target market and cause harm to our operating results.

Our results of operations may decline as a result of a downturn in general economic conditions or consumer confidence

Our results of operations are highly dependent on product sales and program fees. A downturn in general economic conditions or consumer confidence and spending in any of our major markets could result in people curtailing their discretionary spending, which, in turn, could lead to a decrease in product sales in our Medifast Direct and Take Shape for Life divisions and a decrease in product and program fees at our Medifast Weight Control Centers and Internet product subscriptions. Any such reduction would adversely affect our results of operations.

Our Business is subject to regulatory and legislative restrictions

A number of laws and regulations govern our advertising. The FTC and certain states regulate advertising, disclosures to consumers, privacy, consumer pricing or billing arrangements, and other consumer matters.

Future legislation or regulations, including legislation or regulations affecting our marketing and advertising practices, relations with consumers or our food and weight management products and services, may have an adverse impact on us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. DESCRIPTION OF PROPERTY

The Company owns a 49,000 square-foot facility in Owings Mills, Maryland, which contains its Corporate Headquarters and manufacturing plant. In 2003, the Company purchased a state-of-the-art 119,000 square-foot distribution facility in Ridgely, Maryland. The facility gives the Company the ability to distribute over $250 million of Medifast product sales per year. In 2004, the Company purchased a 3,000 square foot conference and training facility in Ocean City, Maryland. The facility will be used to conduct corporate training meetings, Board of Director Meetings and employee morale and wellness programs. The Company has 11 leases for its corporately owned Medifast Weight Control clinics throughout Florida and Texas. The leases range in terms from one to five years.

ITEM 3. LEGAL PROCEEDINGS.

There were no material pending legal matters as of December 31, 2006.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a) The Company's Common Stock has been quoted under the symbol MED since December 20, 2002. The old symbol, MDFT, had been traded since February 5, 2001. The common stock is traded on the New York Stock Exchange. The following is a list of the low and high closing prices by fiscal quarters for 2006 and 2005:

	2006	
	Low	High
Quarter ended March 31, 2006	5.40	9.23
Quarter ended June 30, 2006	8.75	20.90
Quarter ended September 30, 2006	8.21	19.49
Quarter ended December 31, 2006	8.41	14.52

	2005	
	Low	High
Quarter ended March 31, 2005	2.67	3.62
Quarter ended June 30, 2005	2.82	3.30
Quarter ended September 30, 2005	3.01	7.08
Quarter ended December 31, 2005	3.83	5.70

(b) The quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not represent actual transactions.

(c) There were approximately 209 record holders of the Company's Common Stock as of March 14, 2007. This number does not include beneficial owners of our securities held in the name of nominees. The Company had no preferred holders of the Company’s stock as of December 31, 2006.

(d) No dividends on common stock were declared by the Company during 2006 or 2005.

ITEM 6. SELECTED FINANCIAL DATA

The selected condensed consolidated financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included as Part II, Item 7 of this Annual Report on Form 10-K/A, and the consolidated financial statements and notes thereto of the company included in Part II Item 8 of this Annual Report on Form 10-K/A. The historical results provided below are not necessarily indicative of future results.

	2006	2005	2004	2003	2002
Revenue	74,086,000	40,129,000	27,340,000	25,379,000	12,345,000
Operating income	7,381,000	3,549,000	3,004,000	3,598,000	1,752,000
Income from continuing operations	7,463,000	3,405,000	2,906,000	3,558,000	1,698,000
EPS - basic	0.41	0.17	0.16	0.25	0.36
EPS - diluted	0.38	0.17	0.14	0.22	0.30
Total assets	36,677,000	30,120,000	25,968,000	24,230,000	9,888,000
current portion of long-term debt and revolving credit facilities	1,804,000	1,194,000	827,000	819,000	395,000
Total long-term debt	3,509,000	3,977,000	4,256,000	4,564,000	2,701,000
Weighted average shares outstanding					
Basic	12,699,066	12,258,734	10,832,360	9,305,731	6,722,505
Diluted	13,482,894	12,780,959	12,413,424	10,952,367	8,737,292

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD LOOKING STATEMENTS

This document contains forward-looking statements which may involve known and unknown risks, uncertainties and other factors that may cause Medifast, Inc. actual results and performance in future periods to be materially different from any future results or performance suggested by these statements. Medifast, Inc. cautions investors not to place undue reliance on forward-looking statements, which speak only to management's expectations on this date.

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.

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.

CONSOLIDATED RESULTS OF OPERATIONS
2006 COMPARISON WITH 2005

OPERATING

Revenue: Revenue increased to $74.1 million in 2006 as compared to $40.1 million in 2005, an increase of $34 million or 85%. The direct marketing sales channel accounted for 60% of total revenue, Take Shape for Life 30%, doctors 5%, and clinics 5%. The direct marketing sales channel, which is fueled primarily by consumer advertising, increased revenues by approximately 142% year-over year. Take Shape for Life sales, which are fueled by person-to-person recruiting and support increased by 46% year-over-year.

The growth in revenue is primarily the result of an increased advertising campaign in 2006, which fueled growth across the Company's multiple distribution channels. The Company has expanded into additional print media and national cable and network TV spots. The Company also continues to expand its presence on the web through multiple marketing initiatives. Additionally, the Take Shape for Life network continues to grow as the sales network expands into additional states and increased penetration in existing states. The Company continues to create new marketing tools and training materials for health advisors to help increase the recruitment of both active Health Advisors as well as the lifetime value of their customers.

Due to the significant growth in the first half of 2006, Medifast, Inc. began exploring third party over-sourcing capabilities in the call center. The Company began using an outsourced call center for overflow call volume in late April. The outsourced call center allowed the company to prepare in the fourth quarter of 2006 for anticipated sales growth in the first quarter of 2007 so that a shortage of call center representatives would not be experienced as it was in the first quarter of 2006. The Company is currently exploring bringing all call center functions in-house. Capital expenditure for a new phone system would be necessary, however, the return on investment would be under a year. The Company has also invested in increasing production capacity with the purchase of two additional manufacturing lines and a larger capacity blender. The lines will significantly improve the Company's production capability, while also improving its overall efficiencies.

In addition, the Company implemented a new Enterprise Resource Planning (ERP) system in December of 2006. The system adds critical functions and controls necessary for Sarbanes Oxley compliance and significantly increases the Company's ability to track and forecast inventory. The system provides enhanced reporting on all business units and enables the Company to handle significantly increased sales volume. The Company believes that these capabilities will provide the Company with the scalability necessary to seamlessly handle increased demands as the business continues to grow. The Company is exploring the ownership of its call center, which would require a new phone system. The Company expects that this would be the last large capital expense expected. The Company now has the manufacturing, distribution, and IT capability to handle approximately $250 - $300 million in sales volume

Costs and Expenses: Cost of revenue increased $8.1 million to $18.2 million in 2006 from $10.2 million in 2005. As a percentage of sales, gross margin increased to 75.4% in 2006 as compared to 74.7% in 2005. The slight increase in gross margin is primarily due to decreased raw material costs as a result of increased volume discounts. The new machines are expected to add to efficiency in the future.

Advertising expense in 2006 was approximately $14.3 million as compared to approximately $3.8 million in 2005, an increase of $10.5 million. The increased marketing was spent primarily for TV advertising, print, and web media. The Company continues to test, analyze and adapt the advertising message and placements on TV, print and web media to achieve the lowest cost to acquire new customers. This testing will allow the company to spend our advertising dollars most effectively as we plan on increasing our advertising budget for the year of 2007. The branding effect of advertising has proven to have impact in all channels of the business driving customers to the web and call center, leads to Take Shape for Life health advisors, patients to local Medifast practitioners and significant walk-ins to Medifast Weight Control Center clinics.

Aside from the increase in advertising expense, selling, general, and administrative expenses increased by approximately $11.5 million. A few major expense categories attributed to the majority of the increase in expenses and were all directly related to our dramatic sales growth in 2006. Salaries and benefits increased by $3 million to support the 85% increase in sales. In addition, Take Shape for Life sales increased by 46% year-over-year which led to increased commission expense of $3.4 million that is completely variable in relation to sales growth. Another variable expense that rose by $800,000 with our sales growth was credit card processing fees. Currently, over 95% of the Company's transactions are processed via credit card. Additional increases included an increase in office expense of $800,000, an increase in operating costs of $300,000, and an increase in sales expense of $400,000. Other expenses increased by $1.8 million, which included items such as depreciation, amortization, stock compensation expense, charitable contributions, and property taxes. To handle increased call volume, the Company began using an outsourced call center in April of 2006 which led to $1 million in additional expense as compared to prior year.

Other Income/Expense: Other income increased from $15,000 in 2005 to $276,000 in 2006 primarily as a result of increased gains on the sale of equity investments, interest payments received on the CCS note receivable, and state income tax refunds related to 2005 overpayments.

On January 17, 2006 the assets of Consumer Choice Systems, a division of Medifast, Inc., were sold to a former Board member. The promissory note calls for monthly principal only payments over a 10-year term. Therefore, when imputing an interest rate on the loan, a $323,000 loss had to be realized due to the difference in the present value of the note receivable compared to the amount realizable over 10-years. This is a one-time loss that will not affect any future periods. The loss is recouped monthly in interest income over a period of 120 months or upon payment of the note in its entirety.

Income taxes: In the third quarter of 2006, the Company had a $1 million federal tax refund receivable. A portion of this refund was factored into the Company's income tax provision, which lowered the estimated tax rate for 2006**.** In 2006, the Company recorded $2.3 million in income tax expense, which represents an annual effective rate of 31%. In 2005, we recorded income tax expense of $1 million, which reflected an estimated annual effective tax rate of 29.4 %.

The Company anticipates a tax rate of approximately 36-39% in 2007. The benefit the Company received in 2006 from a large income tax refund receivable as a result a cost segregation study performed on our fixed assets is not expected to benefit future periods.

Net income: Net income increased to $5.2 million in 2006 as compared to $2.1 million in 2005, which reflected an increase of 144% or $3.1 million. The increase in net income is due to an increase in sales offset by increased selling, general, and administrative expenses, that primarily consist of increased advertising, commissions paid to Take Shape for Life health advisors, outsourced call center reps, and new employees.

SEGMENT RESULTS OF OPERATIONS

Net Sales by Segment as of December 31,

	2006		2005		2004	
Segments	**Sales**	**% of Total**	**Sales**	**% of Total**	**Sales**	**% of Total**
Medifast	71,049,000	96%	37,980,000	95%	25,686,000	94%
All Other	3,147,000	4%	2,311,000	6%	1,654,000	6%
Eliminations	(110,000)	0%	(162,000)	0%	-	
Total Sales	74,086,000	100%	40,129,000	100%	27,340,000	100%

2006 vs. 2005

Medifast Segment: The Medifast reporting segment consists of the sales of Medifast Direct, Take Shape for Life, and Doctors and Clinics. As this represents the majority of our business this is referenced to the “Consolidated Results of Operations” management discussion for 2006 vs. 2005 above.

All Other Segment: The All Other reporting segment consists of the sales of Hi-Energy and Medifast Weight Control Centers. Sales increased by $836,000 year-over year as a result of an increase in Hi-Energy and Medifast Weight Control Centers sales of 1,736,000. This was offset by a decrease in Consumer Choice Systems sales of $900,000 as the division was sold in January of 2006. The increase in the Hi-Energy and Medifast Weight Control Centers sales were due to spending increases for advertising, increased advertising effectiveness, improved closing rates on walk-in sales, as well as the hiring of more experienced clinic operators to manage the clinics. In addition, new programs were developed that extended the lifetime value of each customer.

2005 vs. 2004

Medifast Segment: The Medifast reporting segment consists of the sales of Medifast Direct, Take Shape for Life, and Doctors and Clinics. As this represents the majority of our business this is referenced to the “Consolidated Results of Operations” management discussion for 2005 vs. 2004 above.

All Other Segment: The All Other reporting segment consists of the sales of Hi-Energy Weight Control Centers. Sales increased year-over-year by $657,000 due to a $1,197,000 increase in Hi-Energy Weight Control Clinic sales. This was offset by a $540,000 decrease in Consumer Choice Systems sales. The increase in Hi Energy sales was as a result of the clinics being start-ups in 2004. Additional clinics were opened in late 2004 and throughout 2005 which led to the increased sales growth. Consumer Choice Systems sales decreased due to heavy product returns from large retail pharmacies to which the Women’s Well Being products were being distributed. The largest sales-volume product was reformulated which led to heavy returns of all the existing products on the retail shelves with the old formula.

Net Profit by Segment as of December 31,

	2006		2005		2004	
Segments	**Profit**	**% of Total**	**Profit**	**% of Total**	**Profit**	**% of Total**
Medifast	6,652,000	129%	4,632,000	193%	3,463,000	200%
All Other	(1,386,000)	-27%	(2,067,000)	-86%	(1,734,000)	-100%
Eliminations	(110,000)	-2%	(162,000)	-7%	-	

Total Sales	5,156,000	100%	2,403,000	100%	1,729,000	100%

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2006 vs. 2005

Medifast Segment: The Medifast reporting segment consists of the profits of Medifast Direct, Take Shape for Life, and Doctors and Clinics. As this represents the majority of our business this is referenced to the "Consolidated Results of Operations" management discussion for 2006 vs. 2005 above. See footnote 17, "Business Segments" for a detailed breakout of expenses

All Other Segment: The All Other reporting segment consists of the losses of Hi-Energy and Medifast Weight Control Centers, Consumers Choice Systems, and corporate expenses related to the parent company operations. Year-over-year, the loss in the All Other segment improved by $681,000. The sale of Consumer Choice Systems in January of 2007 had the largest impact as it led to a $489,000 increase in income as compared to 2005. In addition, decreased selling, general, and administrative expenses of the Corporate operation, which includes auditors fees, attorneys fees, board of director expenses, investor relations, corporate consulting, education and training, and corporate outings, led to improvement of $186,000. The Hi-Energy and Medifast Weight Control Centers showed an immaterial improvement year-over-year due to expenses associated with expanding the clinic model. See footnote 17, "Business Segments" for a detailed breakout of expenses.

2005 vs. 2004

Medifast Segment: The Medifast reporting segment consists of the profits of Medifast Direct, Take Shape for Life, and Doctors and Clinics. As this represents the majority of our business this is referenced to the "Consolidated Results of Operations" management discussion for 2006 vs. 2005 above. See footnote 17, "Business Segments" for a detailed breakout of expenses.

All Other Segment: The All Other reporting segment consists of the losses of Hi-Energy Weight Control Centers, Consumer Choice Systems, and corporate expenses related to the parent company operations. Year-over-year, the loss in the All Other segment increased by $333,000. The primary reason for the increased loss was attributed to parent company operations and Consumer Choice Systems which had increased losses combining to approximately $704,000. Corporate expenses increased due to the increased scale of the business in 2005 vs. 2004. Consumer Choice Systems profits feel due to heavy product returns from large retail pharmacies to which the Women's Well Being products were being distributed. The largest sales-volume product was reformulated which led to heavy returns of all the existing products on the retail shelves with the old formula. The increased losses were offset by improvement in the Hi-Energy Weight Control Clinic loss. In 2004, the entity was in start-up entity that had minimal sales in relation to the expenses incurred to improve operations of the clinics. See footnote 17, "Business Segments" for a detailed breakout of expenses.

Contractual Obligations and Commercial Commitments

As of December 31, 2006, our principal commitments consisted of obligations for variable and fixed rate loans detailed in Note 12 of the financial statements, operating leases for corporately owned Medifast Weight Control Centers detailed in Note 9 of the financial statements, and copier equipment contracts for our printing operation that supports our marketing efforts.

The Company has the following contractual obligations as of December 31, 2006

	Payments due by period						
	2007	**2008**	**2009**	**2010**	**2011**	**Thereafter**	**Total**
Contractual Obligations							

Total Debt	548,000	404,000	386,000	386,000	386,000	1,947,000	4,057,000
Operating Leases	253,000	221,000	215,000	110,000	70,000	-	869,000
Copier Equipment Service Contracts	509,000	509,000	467,000				1,485,000
Total contractual obligations	1,310,000	1,134,000	1,068,000	496,000	456,000	1,947,000	6,411,000

LIQUIDITY AND CAPITAL RESOURCES

The Company had stockholders' equity of $27,916,000 and working capital of $9,612,000 on December 31, 2006 compared with $21,697,000 and $9,996,000 at December 31, 2005, respectively. The $6.2 million net increase in stockholder's equity reflects the increased profitability of the Company. The Company's cash and cash equivalents position decreased from $1.5 million at December 31, 2005 to $1.1 at December 31, 2006. The decrease is due to increased cash outlays for infrastructure to include the new ERP system and new production lines and blender, as well as inventory build-up for the first quarter of 2007. In addition, prepaid advertisements for January and payments to our third party call center were uses of cash. On December 31, 2006 the Company's current ratio was 3 to 1.

In October 2006, Medifast, Inc.'s wholly owned subsidiary Jason Pharmaceuticals, Inc. renewed its $5,000,000 Secured Line of Credit from Mercantile Safe-Deposit and Trust of Baltimore, Maryland. The line of credit is at LIBOR plus 1.3 percent. The increased line may be used to finance equipment, advertising, inventory, and receivables of Medifast, Inc. The Company currently has no off-balance sheet arrangements.

In the year ended December 31, 2006, the Company generated cash flow of $5,845,000 from operations, primarily attributable to higher operating income. This was offset by net changes in operating assets and liabilities that decreased cash flow by $3,650,000. The largest use of cash was for the purchase of inventory. We increased inventory in the fourth quarter in order to meet anticipated demand in the first quarter of 2007. This was offset by an increase in accounts payable and a reduction in our accounts receivable and prepaid balances.

In the year ended December 31, 2006, net cash used in investing activities was $6,747,000, which primarily consisted of the purchase of intangible assets and purchases of property and equipment. The increase in intangible assets relates to the acquisition of customer lists in 2006 which are used in direct response marketing campaigns. These campaigns consist of postcards and e-mails that are sent to customers with a special offer or discount coupon to order on our website, choosemedifast.com, or through our call center. In addition, the Company acquired trademarks in preparation for future international ventures as well as incurred fees in developing patents on our diabetic lines. The increase in property and equipment relates to the building of a large amount of infrastructure in 2006. This included a new Enterprise Resource Planning system, two new state of the art manufacturing lines, larger capacity blender and improvements at our distribution facility as well as the build out of our new Medifast Weight Control Centers.

In the year ended December 31, 2006, financing activities generated $503,000 in cash flow, representing principal repayments of long-term debt, and the purchase of 25,000 shares of treasury stock. This was offset by an increase in the line of credit and issuances of warrants and options exercised with cash.

In pursuing its business strategy, the Company may require additional cash for operating and investing activities. The Company expects future cash requirements, if any, to be funded from operating cash flow and cash flow from financing activities.

There are no current plans or discussions in process relating to any material acquisition that is probable in the foreseeable future.

2005 COMPARISON WITH 2004

OPERATING

Revenue: Consolidated net sales for 2005 were $40,129,000 as compared to 2004 sales of $27,340,000, an increase of $12,789,000, or 47%. A major reason for the revenue increase for the Company is attributed to the continued success of direct sales to consumers as well as the expansion of the Take Shape for Life division. The increase in direct sales was attributed to an expanded direct marketing campaign via print, mail, web and television to drive customers to the call center and website. Through the effectiveness of our online ads and improved web branding a higher percentage of customers ordered on the Company's website in 2005. In addition, the Company expanded it remarketing campaign to drive new customers to the call center and website. The Take Shape for Life division added a Take Shape for Life replicating website option for Health Advisors, an Internet distribution program for their customers, and provided health advisors with additional sponsoring tools to make training and recruiting easier. These have proven to be effective at generating revenues and recruiting Health Advisors into the Take Shape for Life Network. The increased training and recruitment initiatives in 2005 have resulted in the expansion of the sales network into additional locations as well as growth in current locations.

Costs and Expenses: Cost of sales increased from 6,746,000 in 2004 to $10,161,000 in 2005, an increase of $3,415,000. As a percentage of sales, cost of goods sold increased slightly due to increased fuel charges charged by the major shipping companies. Gross margin was 75% at December 31, 2005 and 2004.

Selling, general and administrative (SG&A) expenses of $26,419,000 for 2005 were $8,829,000 more than the $17,590,000 in 2004, due to increased costs associated with the increased scale of the business. The Company increased its advertising and marketing expense by approximately $3.2 million to include additional print and web advertising as well as strategic testing of television advertising. Salaries and benefits increased by approximately $1.1 million, Take Shape for Life commissions increased by $1.4 million due to sales increase in the network, office expenses increased by approximately $750,000, operating expenses increased by approximately $1 million, and other general and administrative expenses increased by approximately $1.4 million.

In 2005, the Company experienced income from operations of $3,549,000. This compares with income from operations of $3,004,000 in 2004, an increase of 18%. The increase in income is primarily due to higher gross profit from increased revenue offset by higher general and administrative expenses.

Income Taxes: In 2005, the Company realized a tax expense of $1,002,000, as compared to a tax expense of $1,159,000 in 2004. The decrease in tax expense is due to timing differences between book and tax purposes for intangible assets, and other temporary and permanent differences. Interest expense increased to $317,000 in 2005, as compared to $245,000 in 2004. This increase was due to a full year of interest expense paid on a new loan acquired in 2004.

Net Income: The Company reported net income of $2,112,000, or $0.17 per basic share ($0.17 per diluted share), versus $1,729,000 or $0.16 per basic share ($0.14 per diluted share), with a dilution increase of 368,000 shares. Earnings per share were effected by the interest associated with the conversion of the Series “B” preferred stock. This conversion included a $260,000 stock dividend on Series “B” preferred stock and a $19,000 stock dividend on Series “C” preferred stock. As of December 31, 2005 all Series “B” and Series “C” preferred stock have been converted to common stock and included in the weighed average diluted shares. There will be no additional stock dividend payments.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2005, the Company had net working capital of $9,995,000, an increase of $2,531,000 from the $7,464,000 net working capital balance at December 31, 2004. Cash and investment securities at December 31, 2005 were $6,959,000. In November 2005, Medifast, Inc.’s wholly owned subsidiary Jason Pharmaceuticals, Inc. renewed its $5,000,000 Secured Line of Credit from Mercantile Safe-Deposit and Trust of Baltimore, Maryland. The line of credit is at LIBOR plus 1.3 percent. The increased line may be used to finance equipment, inventory, and receivables of Medifast, Inc. The Company currently has no off-balance sheet arrangements.

In the year ended December 31, 2005, the Company generated cash flow of $3,213,000 from operations, primarily attributable to higher operating income. This was offset by net changes in operating assets and liabilities that decreased cash flow by $2,065,000. The largest uses of cash were for the purchase of inventory and prepaid expenses, which primarily consisted of prepaid taxes, insurance, and advertising.

In the year ended December 31, 2005, net cash used in investing activities was $2,032,000, which primarily consisted of the purchase of intangible assets and purchases of property and equipment.

In the year ended December 31, 2005, net cash used in financing activities was $309,000, representing the principal repayments of long-term debt and purchase of treasury stock offset by an increase in the line of credit. Medifast, Inc. purchased 110,000 shares of its common stock from October 6, 2005 through October 17, 2005 at an average price of $4.03 per share, aggregating $452,000.

In pursuing its business strategy, the Company may require additional cash for operating and investing activities. The Company expects future cash requirements, if any, to be funded from operating cash flow and cash flow from financing activities.

There are no current plans or discussions in process relating to any material acquisition that is probable in the foreseeable future.

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." The Company did not experience the same degree of seasonality in 2006. 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

To date, inflation has not had a material effect on the Company's business.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates and a decline in the stock market. The Company does not enter into derivatives, foreign exchange transactions or other financial instruments for trading or speculative purposes. The Company has limited exposure to market risks related to changes in interest rates. The principal risks of loss arising from adverse changes in market rates and prices to which the Company and its subsidiaries are exposed relate to interest rates on debt. Since nearly all of our debt is variable rate based, any changes in market interest rates will cause an equal change in our net interest expense. At December 31, 2006, there was $4 million of variable interest loans outstanding which is subject to interest rate risk. Interest rates on our variable rate loans ranged from 7.1% to 7.85% for the year ended December 31, 2006. Each 100 basis point increase in the bank's LIBOR rates relative to these borrowings would impact interest expense by $40,000 over a 12-month period.

ITEM 8. FINANCIAL STATEMENTS.

The information required by this item is set forth on pages 41 to 65 hereto and incorporated by reference herein.

ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

There were no disagreements with the Company's independent auditors, regarding accounting and financial disclosures for the fiscal year ending December 31, 2006.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the rules and forms of the Securities and Exchange Commission.

In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In connection with the aforementioned restatement of our financial statements, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we reevaluated, as of December 31, 2006, the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Act"). Based upon that reevaluation, as a result of a material weakness in internal control over financial reporting with respect to amortization expense of a customer list, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms; and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures. In connection with the Original Filing and prior to our discovery of the error relating to amortization expense on a customer list, our principal executive officer and principal financial officer had concluded that our disclosure controls and procedures were effective as of December 31, 2006 to a reasonable assurance level.

Changes in our Internal Control

There was no change in our internal control over financial reporting during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting (As Restated)

Management is responsible for establishing and maintaining effective internal control over financial reporting of the Corporation. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Corporation's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Corporation's assets that could have a material effect on the financial statements.

A material weakness is a significant deficiency or a combination of significant deficiencies that result in a more than remote likelihood than a material misstatement of the annual or interim financial statements will not be prevented or detected.

In connection with the aforementioned restatement of financial statements, our management has reassessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in Internal Control—Integrated Framework. Our management has concluded that based on its assessment, our internal controls over financial reporting were not effective as of December 31, 2006 because we did not maintain effective controls over the accounting for amortization expense on a customer list. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Bagell, Josephs, Levine & Co, an independent registered public accounting firm, has issued an audit report on our management's revised assessment of our internal control over financial reporting as of December 31, 2006.

In the Original Filing and prior to our discovery of the error relating to amortization expense on a customer list, our management had previously concluded that our internal controls over financial reporting were effective as of December 31, 2006.

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Medifast, Inc. have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Medifast, Inc. and subsidiaries
Owing Mills, Maryland

We have audited management's assessment, included in Item 9A of Medifast, Inc.'s Annual Report on Form 10-K/A under the heading Management's Annual Report on Internal Control over Financial Reporting (As Restated), that Medifast, Inc.'s, (the "Company") did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of the Company's material weakness relating to its internal controls over the accounting for amortization expense on a customer list, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Medifast, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Medifast, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated March 15, 2007 we expressed an unqualified opinion on management's previous assessment that Medifast, Inc. maintained effective internal control over financial reporting as of December 31, 2006 and an unqualified opinion that Medifast, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based upon the COSO criteria. Management has subsequently determined that a deficiency in controls relating to the accounting for amortization expense on a customer list existed as of the previous assessment date, and has further concluded that such deficiency represented a material weakness as of December 31, 2006. As a result, management revised its assessment, as presented in Item 9A of the Company's Annual Report on Form 10-K/A under the heading Management's Annual Report on Internal Control over Financial Reporting (As Restated), to conclude that the Company's internal control over financial reporting was not effective as of December 31, 2006. Accordingly, our present opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, as expressed herein, is different from that expressed in our previous report.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment. The Company identified a material weakness related to its internal control over the accounting for its customer lists under Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." The material weakness resulted in the restatement of the Company's consolidated financial statements as of December 31, 2006 and 2005, and the interim financial information for each of the quarters in 2006, commencing with the quarter ended March 31, 2006. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 consolidated financial statements, and this report does not affect our report dated March 15, 2007, except for Note 16, as to which the date is September 6, 2007, on those consolidated financial statements (as restated).

In our opinion, management's assessment that Medifast, Inc. did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Medifast, Inc. has not maintained effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

Bagell, Josephs, Levine, and Co.
Gibbsboro, NJ
March 15, 2007, except for the effects
of the material weakness described in
the sixth paragraph of this report, as to which
the date is September 6, 2007

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Board of Directors currently consists of 9 persons. The directors, their ages, and the year in which they first became director are provided in the table below:

Name and Experience	Director Since
Joseph D. Calderone, age 58, is the Associate Director of Campus Ministry at Villanova University. He formerly spent over eight years with the Loyola University Medical Center as the hospital Chaplain and taught multiple courses including Introduction to the Practice of Medicine and Business Ethics. Rev. Calderone recently retired as a Captain in the US Navy Reserves. He served as the Wing Chaplain for the 4th Marine Aircraft Wing.	2003
Charles P. Connolly, age 58, is currently an independent director focusing on bank relationships, debt refinancing, merger and acquisition strategy and executive compensation design. Mr. Connolly spent 29 years at First Union Corp. that merged with Wachovia Bank in 2001. He retired in 2001 as the President and CEO of First Union Corp. Mr. Connolly serves on the Boards of numerous non-profit organizations. He holds an MBA from the University of Chicago and AB from Villanova University.	2006
Bradley T. MacDonald, age 59, is the Chairman of the Board of Medifast, Inc. Mr. MacDonald has been Chairman of the Board of Medifast, Inc. since January 1998 and was also Chief Executive officer until March of 2007. He was the principal architect of the turnaround of Medifast and formulated the "Direct to Consumer" business models that are the primary drivers of Revenue to this day. He also was the co-founder of Take Shape for Life and acquired the Clinic operations in 2002. During his time as CEO, he managed the company to 29 consecutive quarters of profits and improved shareholders equity from negative $4 million to over $27 million in less than seven years. He also increased the Company's market cap from less than $1 million to over $100 million and listed the company on the NYSE. In 2006, Mr. MacDonald received the prestigious and audited Ernst and Young award of "Entrepreneur of the Year" for the state of Maryland in the consumer products category. Also, he helped lead the Company to national recognition in Forbes Magazine ranking Medifast 28th of the top 200 small companies in America. Mr. MacDonald was previously employed by the Company as its Chief Executive Officer from September 1996 to August 1997. From 1991 through 1994, Colonel MacDonald returned to active duty to be Deputy Director and Chief Financial Officer of the Retail, Food, Hospitality and Recreation Businesses for the United States Marine Corps. Prior thereto, Mr. MacDonald served as Chief Operating Officer of the Bonneau Sunglass Company, President of Pennsylvania Optical Co., Chairman and CEO of MacDonald and Associates, which had major financial interests in a retail drug, consumer candy, and pilot sunglass companies. Mr. MacDonald was national	1996

president of the Marine Corps Reserve Officers Association and retired from the United States Marine Corps Reserve as a Colonel in 1997, after 27 years of service. He has been appointed to the Defense Advisory Board for Employer Support of the Guard and Reserve (ESGR) Mr. MacDonald serves on the Board of Directors of the Wireless Accessories Group (AMEX: XWG). He also serves on the Board of Directors of the Marine Corps Reserve Toys for Tots Foundation and is on the Board of Trustees of Villa Julie College of Stevenson, Maryland and the Institute of Notre Dame, the oldest Catholic girl's urban high school in Maryland, located in Baltimore. Mr. MacDonald is the father of Margaret MacDonald who performs the role of President and Chief Operating Officer at Medifast, Inc. Mr. Michael C. MacDonald is the brother of Mr. Bradley T. MacDonald.

Michael C. MacDonald, age 53, is president of global accounts and marketing operations for Xerox Corporation, Stamford, Conn. He was named to this position in October 2004 and was appointed a corporate senior vice president in July 2000. Mac Donald is responsible for directing the company's largest global accounts, improving the customer experience, corporate marketing, xerox.com, advertising, worldwide public relations and marketing communications. Most recently, Mac Donald was president, North American Solutions Group responsible for all products, services and solutions sold by Xerox direct sales force in the United States and Canada. Prior to that, he served as the group's senior vice president of marketing and chief of staff. Mac Donald is on the board of directors of the Rochester Institute of Technology, PAETEC, and the Jimmy V Foundation. He is also a board member of the CMO Council North American Advisory Board. Mr. MacDonald completed executive business and management programs at Columbia University in 1992 and the International Senior Management Program at Harvard University in 1998	1998
Dennis M. McCarthy, age 62, practiced law for 21 years as a civil litigator in tort and contract cases. He was the founding member and managing partner of a Columbus, Ohio based law firm. Additionally, he served active duty in the U.S. Marine Corps for 23 years and served 18 years in reserve service. Mr. McCarthy retired from the Marine Corps in 2005 in the grade of Lieutenant General after four years in command of all Marine Reserve forces. Mr. McCarthy is currently the Executive Director of the Reserve Officers Association, a congressionally chartered association devoted to national defense. In addition to Medifast, he is a member of the Board of Directors of Rivada Networks.	2006

Michael J. McDevitt, age 58, is a retired FBI Special Agent with over 29 years of government service with the United States Marine Corps and the FBI. He had attained Senior Executive status within the FBI's Investigative Technology Branch and is currently providing consulting services, focusing on physical threat and risk assessments and conducting specialized training for law enforcement and US Government entities. Mr. McDevitt is the father of Michael S. McDevitt who performs the role of Chief Executive Officer and Chief Financial Officer at Medifast, Inc. Mr. McDevitt is the father of Michael S. McDevitt who performs the role of Chief Executive and Chief Financial Officer at Medifast, Inc.	2002
Donald F. Reilly, OSA, age 59, holds a Doctorate in Ministry (Counseling) from New York Theological and an M.A. from Washington Theological Union as well as a B.A. from Villanova University. Reverend Don Reilly was ordained a priest in 1974. His assignments included Associate Pastor, Pastor at St. Denis, Havertown, Pennsylvania, Professor at Villanova University, Personnel Director of the Augustinian Province of St. Thomas of Villanova, Provincial Counselor, Founder of SILOAM Ministries where he ministers and counsels HIV/AIDS patients and caregivers. He is currently on the Board of Directors of Villanova University, and is Board Member of Prayer Power. Fr. Reilly was recently re-elected Provincial of the Augustinian Order at Villanova, PA. He oversees more than 220 Augustinian Friars and their service to the Church, teaching at universities and high schools, ministering to parishes, serving as chaplain in the Armed Forces and hospitals, ministering to AIDS victims, and serving missions in Japan and South America.	1998
Mary T. Travis, age 56, is currently employed with Sunset Mortgage Company, L.P. in Pennsylvania as the Senior Vice President of wholesale operations and was formerly the Vice President of operations for the Financial Mortgage Corporation. Mrs. Travis is an expert in mortgage banking with over 36 years of diversified experience. She is an approved instructor of the Mortgage Bankers Association Accredited School of Mortgage Banking. Mrs. Travis was also formally a delegate and 2nd Vice President of the Mortgage Bankers Association of Greater Philadelphia and the Board of Governors of the State of Pennsylvania.	2002

ADDITIONAL INFORMATION ABOUT THE BOARD OF DIRECTORS AND COMMITTEES

Director Independence

The Board consists of 9 members of which 8 are non-management directors. Determination as to the qualifications of an independent directors are determined under section 303A.02 of the New York Stock Exchange, or the NYSE, Listed Company Manual and the Company’s Categorical Standards of Independence. The NYSE’s independence guidelines and the Company’s categorical standards include a series of objective tests, such as the director is not an employee of the Company and has not engaged in various types of business dealings involving the Company, which would prevent a director from being independent. The Board of Directors has affirmatively determined that none of the Company’s independent directors had any relationships with the Company.

The Board, in applying the above referenced standards has affirmatively determined the Company's current independent directors are: Joseph Calderone, Charles P. Connolly, George Lavin, Jr. Esq., Dennis M. McCarthy, Donald F. Reilly, and Mary Travis.

Board Meetings

For the fiscal year ended December 31, 2006 ("Fiscal 2006"), the Board of Directors held four meetings. All Board members attended at least 75% of the aggregate number of Board meetings and applicable committee meetings held while such individuals were serving on the Board of Directors, or such committees. Under the Company's *Principles of Corporate Governance*, which is available on the Company's website *www.choosemedifast.com* , by following the link through "Investor Relations" to "Corporate Governance," each director is expected to dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties, including attending meetings of the shareholders of the Company, the Board of Directors and committees of which he or she is a member. Six directors attended the 2006 annual general meeting.

Committees of the Board

Our Board of Directors has a standing audit committee, nominating and corporate governance committee, compensation committee, and executive committee.

Audit Committee

Our audit committee consists of Joseph Calderone, Charles Connolly, George Lavin, and Mary Travis, each of whom are independent as discussed above under "— Director Independence." As required by Rule 303A.07 of the NYSE Listed Company Manual, the Board of Directors has affirmatively determined that each audit committee member is financially literate, and that Mr. Connolly is an "audit committee financial expert," as defined in Item 407(d)(5) of Regulation S-K.
The principal duties of the audit committee are as follows:

Ÿ have the sole authority and responsibility to hire, evaluate and, where appropriate, replace the independent auditors;

Ÿ meet and review with management and the independent auditors the interim financial statements and the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations prior to the filing of the Company's Quarterly Reports on Form 10-Q;

Ÿ meet and review with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K (or the annual report to shareowners) including (i) their judgment about the quality, not just acceptability, of the Company's accounting principles, including significant financial reporting issues and judgments made in connection with the preparation of the financial statements; (ii) the clarity of the disclosures in the financial statements; and (iii) the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, including critical accounting policies;

Ÿ review and discuss with management, the internal auditors and the independent auditors the Company's policies with respect to risk assessment and risk management;

Ÿ review and discuss with management, the internal auditors and the independent auditors the Company's internal controls, the results of the internal audit program, and the Company's disclosure controls and procedures, and quarterly assessment of such controls and procedures;

Ÿ establish procedures for handling complaints regarding accounting, internal accounting controls and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding accounting and auditing matters; and

Ÿ

review and discuss with management, the internal auditors and the independent auditors the overall adequacy and effectiveness of the Company's legal, regulatory and ethical compliance programs.

Our Board of Directors has adopted a written charter for the audit committee which is available on the Company's website at *www.choosemedifast.com* by following the links through "Investor Relations" to "Corporate Governance." In fiscal 2006, the audit committee met five times.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee consists of Joseph Calderone, Donald F. Reilly, and George Lavin, all of whom are independent as discussed above under "— Director Independence."

The principal duties of the nominating and corporate governance committee are as follows:

- to recommend to our Board of Directors proposed nominees for election to the Board of Directors both at annual general meetings and to fill vacancies that occur between general meetings; and
- to make recommendations to the Board of Directors regarding the Company's corporate governance matters and practices.

Our Board of Directors has adopted a written charter for the nomination and corporate governance committee which is available on the Company's website at *www.choosemedifast.com* by following the links through "Investor Relations" to "Corporate Governance." In fiscal 2006, the nomination and corporate governance committee met four times.

Our Board of Directors has adopted a written charter for the nominating and corporate governance committee, which is available on the Company's website at *www.choosemedifast.com* by following the links through "Investor Relations" to "Corporate Governance" or in print to any shareholder who requests it as set forth under "Additional Information — Annual Report, Financial and Additional Information." In fiscal 2006, the nominating and corporate governance committee met four times.

Compensation Committee

The compensation committee currently consists of George Lavin, Jr., Esq, Dennis M. McCarthy, Esq., Donald F. Reilly, and Mary Travis, all of whom were independent as discussed above under "— Director Independence."

The principal duties of the compensation committee are as follows:

Ÿ measure the Chief Executive Officer's performance against his goals and objectives pursuant to the Company plans;

Ÿ determine the compensation of the Chief Executive Officer after considering the evaluation by the Board of Directors of his performance;

Ÿ review and approve compensation of elected officers and all senior executives based on their evaluations, taking into account the evaluation by the Chief Executive Officer;

Ÿ review and approve any employment agreements, severance arrangements, retirement arrangements, change in control agreements/provisions, and any special or supplemental benefits for each elected officer and senior executive of the Company;

Ÿ approve, modify or amend all non-equity plans designed and intended to provide compensation primarily for elected officers and senior executives of the Company;

Ÿ make recommendations to the Board regarding adoption of equity plans; and

Ÿ modify or amend all equity plans.

Our Board of Directors has adopted a written charter for the compensation committee which is available on the Company's website at *www.choosemedifast.com* by following the links through "Investor Relations" to "Corporate Governance." In fiscal 2006, the compensation committee met four times.

Executive Committee

Messrs. Bradley T. MacDonald, Michael C. MacDonald, Michael J. McDevitt, and Dennis M. McCarthy, Esq. are members of the Executive Committee. The Executive Committee has all the authority of the Board of Directors, except with respect to certain matters that by statute may not be delegated by the Board of Directors. The Committee meets periodically during the year to develop and review strategic operational and management polices for the Company. The Committee held three meetings during fiscal 2006.

ADDITIONAL INFORMATION

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's directors and executive officers and persons who beneficially own more than ten percent of a registered class of the Company's equity securities to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of equity securities of the Company. Directors, officers and greater-than-ten-percent beneficial owners are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms filed by them. In 2006, To the Company's knowledge, based solely on a review of the copies of such filings on file with the Company and written representations from the Company's directors and executive officers, no Section 16(a) filing requirements were applicable to the Company's directors, executive officers and greater-than-ten-percent beneficial owners in fiscal 2006.

Codes of Business Conduct and Ethics and Corporate Governance Guidelines

Our Board of Directors has adopted a corporate Code of Business Conduct and Ethics applicable to our directors, officers, including our principal executive officer, principal financial officer and principal accounting officer, and employees, as well as Corporate Governance Guidelines, in accordance with applicable rules and regulations of the SEC and the NYSE. Each of our Code of Business Conduct and Ethics and Corporate Governance Guidelines are available on our website at *www.choosemedifast.com* by following the links through "Investor Relations" to "Corporate Governance."

Any amendment to, or waiver from, a provision of the Company's Code of Business Conduct and Ethics with respect to the Company's principal executive officer, principal financial officer, principal accounting officer or controller will be posted on the Company's website, *www.choosemedifast.com.*

ITEM 11. EXECUTIVE COMPENSATION.

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Program

Our Compensation Committee of the Board of Directors has responsibility for establishing, implementing and continually monitoring adherence with the Company's compensation philosophy. The Compensation Committee ensures that the total compensation paid to our named executive officers is fair, reasonable and competitive. Generally, the types of compensation and benefits provided to our named executive officers are similar to those provided to other officers and employees of the Company.

Throughout this discussion, the individuals who served as our CEO and CFO during Fiscal 2006, as well as the other individuals included in the Summary Compensation Table on page 10, are referred to as the "named executive officers."

Objectives of Compensation Program

The main objective of our executive compensation program is to create a competitive total rewards package based on the attainment of short-term performance objectives and long-term strategic goals. Accordingly, our executive compensation program consists of the following three principal elements: base salary, cash bonus and equity grants in the form of stock options and restricted stock, with an emphasis on incentive compensation rather than base salary. Our executives are also eligible to participate in employee benefit and retirement plans offered by the Company, which currently include defined contribution and 401(k) plans, and health care and other insurance programs. The benefit programs available to executives are the same as those available to all other eligible employees.

Decision-Making; Role of Executive Officers in Compensation Decisions

The Compensation Committee of our Board of Directors is comprised solely of non-affiliate independent Directors who meet the independence requirements of the NYSE. Our Compensation Committee makes all decisions regarding the compensation of our CEO, including establishing the performance goals and objectives for our CEO, evaluating our CEO's performance in light of the goals and objectives that were set, and determining and recommending to our Board the CEO's compensation based on that evaluation.

Our CEO makes recommendations to our Compensation Committee for the compensation of our CFO and all other named executive officers. Our Compensation Committee and Board may accept or adjust such recommendations as they determine in the best interests of the Company and its stockholders and has final approval over all such compensation decisions. To the extent not established by our Board of Directors, our Compensation Committee is also authorized to establish compensation and benefits for our Chairman and for new and existing non-affiliate independent Directors.

Our Chairman, CEO, and Vice President of Human Resources provide advice, analysis and recommendations to our Compensation Committee.

Elements of Executive Compensation

Our Compensation Committee also evaluates the achievement of corporate, individual and organizational objectives for each executive officer during the prior fiscal year. Each element of compensation is chosen in order to attract and retain the necessary executive talent, reward corporate performance and provide incentive for the attainment of long-term strategic goals. The allocation of each element of compensation is determined by our Compensation Committee for each executive based on the following factors:

- Performance against corporate, individual and organizational objectives for the fiscal year;
- Importance of particular skill sets and professional abilities to the achievement of long-term strategic goals; and
- Contribution as a leader, corporate representative and member of the senior management team.

These elements support our overall compensation philosophy by creating a balanced focus on shorter-term corporate performance and the achievement of longer-term business goals and stockholder value. While we believe in structuring executive compensation plans that give our executives incentive to deliver certain objective elements of corporate financial performance over specified time periods, we do not believe in a purely mechanical approach. Instead, part of our executive compensation philosophy includes an element of reward for non-quantitative achievements demonstrated by our executives in the actions and decisions they have taken throughout the year. When establishing our executive compensation plans for a given year, it is not possible to foresee all of the challenges and demands that will be made of our executives, both as a management team and in their areas of individual responsibility. We believe that by rewarding the quality of our decision-making and leadership, in addition to the achievement of quantifiable results, we are building a management team capable of creating stockholder value over the longer-term, while remaining disciplined in delivering shorter-term financial results. Accordingly, there is no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation. Rather, the Compensation Committee reviews information provided by its compensation consultant, industry surveys and peer company data to determine appropriate level and mix of incentive compensation. Income from such incentive compensation is realized as a result of the performance of the Company and the individual, depending on the type of award, compared to established goals.

Base Salary

Our base salary determinations principally reflect the skills and performance levels of individual executives, the needs of the Company, and pay practices of comparable public companies. It is not our policy to pay our executive officers at the highest base salary level. Instead, we establish executive base salaries conservatively at or below a midpoint level relative to an appropriate set of peers. We believe this policy sets a prudent and fiscally responsible tone for the Company’s overall base salary compensation programs.

Target Bonus

Cash bonuses principally reflect the Company’s financial performance and achievement of corporate objectives established by our Board prior to the fiscal year. The executive bonus plan is designed to reward our executives for the achievement of shorter-term financial goals, predominantly revenue growth and profitability, with cash flow and other operating ratios also considered. The allocation of the bonus pool among the employees, including senior executives, is at the discretion of the Compensation Committee. The Chief Executive Officer, Chief Financial Officer and other senior executives discuss and jointly develop recommended bonus allocations among the staff within the various functional areas of the Company. In addition, the Chief Executive Officer prepares an allocation of bonus payments among the senior executive group. In consultation with the Chief Executive Officer, the Compensation Committee evaluates, adjusts and approves the amount and allocation of the bonus pool. In determining the cash bonus allocation among senior executives, the Compensation Committee and the Chief Executive Officer consider each executive’s a) contribution to current and long-term corporate goals, and b) value in the labor market.

Equity Compensation

Stock option and restricted stock awards principally reflect the responsibilities to be assumed by each executive in the upcoming fiscal year, the responsibilities of each executive in prior periods, the size of awards made to each executive in prior years relative to the Company’s overall performance, available stock for issuance under our Option Plan, and potential grants in future years. The Committee believes that stock option and restricted stock grants (1) align the interests of executives with long-term stockholder interests, (2) give executives a significant, long-term interest in the Company’s success, and (3) help retain key executives in a competitive market for executive talent. The Company does not plan on issuing stock options as part of compensation in 2007 and beyond.

Equity Ownership by Executives

We do not currently have a formal equity ownership requirement for our executives. However, we encourage our executives to own equity in the Company on a voluntary basis. All of our named executive officers own stock, restricted stock and vested and unvested stock options. We periodically review the vested and unvested equity holdings of our executives and evaluate whether these holdings sufficiently align the interests of our executives with the long-term interests of our stockholders. We may consider adopting equity ownership requirements in the future.

2006 Summary Compensation Table

The following table sets forth the annual and long-term compensation for the fiscal year ended December 31, 2006, of the Company's Chief Executive Officer and Chief Financial Officer and each of the three other most highly compensated executive officers. These individuals, including the Chief Executive Officer and Chief Financial Officer are collectively referred to as the Named Executive Officers.

Name and Pricipal Position	Year	Salary ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Bonus ($)(2)	Nonqualified Deferred Compensation Contributions ($)	All Other ($)(3)	Total ($)
Bradley T. MacDonald	2006	$ 225,000	-	-	-	$ 100,000	$ 6,600	$ 331,600
Chairman, Chief Executive Officer								
Michael S. McDevitt	2006	99,000	289,000	-	27,500		3,800	