MEDIFAST INC
Form 10-K
March 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

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 ¨

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 ¨ 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 ¨

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. ¨

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

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

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2008, based upon the closing price of $5.26 per share on the New York Stock Exchange on that date, was $64,000,000.

As of March 13, 2009, the Registrant had 14,585,960 shares of Common Stock outstanding.

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PART I

ITEM 1. BUSINESS.

SUMMARY

Medifast, Inc. (the "Company" or “Medifast”) is a Delaware corporation, incorporated in 1993. 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 vitamins primarily manufactured in its modern, FDA approved facility in Owings Mills, Maryland.

MARKETS

Throughout the past 30 years, obesity in the United States has dramatically increased. The obesity epidemic shows no signs of slowing down and recently, the condition has worsened among Americans rather than improved. Approximately 1.7 billion people worldwide are overweight; however the percentage of overweight adults is the highest in the United States, with two-thirds of all Americans being overweight or obese.

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, with 60 million (or about thirty percent) American adults suffering from obesity. The obesity epidemic raises concern among Americans because of the implications associated with their health. The most common health conditions associated with obesity are type II diabetes, coronary heart disease, hypertension and stroke, sleep apnea and respiratory problems, gallbladder disease, depression and certain forms of cancer.

The Centers for Disease Control and Prevention show that obesity is not only affects adults, but children and adolescents as well. According to the CDC, the obesity prevalence in children and adolescents has tripled since 1976. Overweight and obesity in children and adolescents increases the risk of health problems such as high blood pressure, high cholesterol and Type 2 Diabetes.

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 2001 in Diabetes Care. In addition, a study published by the CDC in October 2007 shows how children are now being affected by Type 2 diabetes. Obese children suffering from Type 2 diabetes are at increased risk of suffering significant morbidities in the form of amputations, kidney problems, and blindness.

Obesity is defined as a Body Mass Index (BMI) of 30 kg/m2 or greater, whereas overweight is defined as a BMI ranging between 25 and 30 kg/m2. According to a recent study conducted by the Centers for Disease Control and Prevention in 2006, only four (4) states in the U.S.A. had a prevalence of obesity less than twenty percent (20%). Twenty–two states showed a prevalence equal to or greater than twenty-five percent (25%), and two of those states had a prevalence of obesity equal to or greater than thirty percent (30%).

The primary obesity causing factors are preventable and well known in the United States. These factors are unhealthy diet and physical inactivity. It’s estimated that poor nutrition and physical inactivity account for more than 300,000 premature deaths per year in the U.S. According to the United States Department of Health and Human Services, only 25% of adults and less than 25% of teenagers include the suggested 5 or more servings of vegetables and fruits in their daily meal. More than half of American adults fail to engage in the suggested amount of physical activity, and more than 1/3 of young Americans do not engage in regular vigorous physical activity at all.

The United States Department of Human and Health Services states that Americans spend $117 billion in costs associated with overweight and obesity. Direct medical and healthcare costs total $93 billion. The U.S. weight loss market is estimated to be a $55 billion/ year industry. This includes consumer spending on diet foods, health clubs, commercial weight loss centers, low-calorie prepared foods, medically supervised and commercial weight loss programs, diet books, appetite suppressants, artificial sweeteners, diet sodas, videos and cassettes, children's weight loss camps and more.

Distribution Channels

Medifast Direct – In the direct to consumer channel, customers order Medifast product directly through the Company's website, www.choosemedifast.com, or our in-house call center. The product is shipped directly to the customer's house. 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, direct mail and web advertising as well as public relations initiatives. The Medifast Direct division focuses on targeted marketing initiatives and providing customer support through its in-house call center and nutrition support teams to better serve its clients. In addition, Medifast also continued to promote its use of leading web technology featuring 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 clients 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 BeSlimTM 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 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.

Take Shape for Life is a member of the Direct Selling Association (DSA), a national trade association representing over 200 direct selling companies doing business in the United States. To become a member of the DSA Take Shape for Life, like other active DSA member companies, underwent a comprehensive and rigorous one-year company review by DSA legal staff that included a detailed analysis of its company business plan materials. This review is designed to ensure that a company's business practices do not contravene DSA's Code of Ethics. Compliance with the requirements of the Code of Ethics is paramount to become and remain a member in good standing of DSA. Accordingly, Membership in DSA by Take Shape for Life demonstrates its commitment to the highest standards of ethics and a pledge not to engage in any deceptive, unlawful, or unethical business practices. Among those Code of Ethics proscriptions are pyramid schemes or endless chain schemes as defined by federal, state, or local laws. Moreover, Take Shape for Life, like other DSA member companies in good standing, has pledged to provide consumers with accurate and truthful information regarding the price, grade, quality, and performance of the products Take Shape for Life markets.

Medifast Weight Control Centers – The Medifast Weight Control Center is the brick and mortar clinic channel of Medifast located in Texas and Florida. In 2008, the Company opened ten new Medifast Weight Control Centers and had a total of twenty locations in operation at year-end. The centers offer a 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, and the Inbody TM composition analysis.

In 2008, the Company began offering the clinic model as a franchise opportunity. On February 18, 2008, the Company announced that it has sold its first franchise of Medifast Weight Control Centers. The Company sold the rights to open four clinics in the Greater Baltimore Metropolitan Area. The franchisee also has the rights to open four additional Medifast Weight Control Centers in the Baltimore area over the next two years, bringing the total to eight locations. On June 3, 2008 the Company announced that it sold the rights to open four Medifast Weight Control Centers in Southern California and three Medifast Weight Control Centers in Central California to two different local business operators. On October 8, 2008, the Company announced the opening of its first franchise clinic in the Baltimore, MD area. In December 2008, three Medifast Weight Control Center franchise locations opened in Southern California and one location opened in Central California. At December 31, 2008, five franchise locations were operating.

The Company continues to support its controlled label licensee model, Hi-Energy, by providing marketing materials, ads, on-site trainings, fitness programs, nutritional programs and clinical operation materials and forms.

Medifast Physicians –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. 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.

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 such as those specially formulated for people with diabetes as well as products for women's health, joint health and coronary health.

While all Medifast products are suitable for individuals with type 2 diabetes, Medifast also has a line of products specially designed to meet the needs of people with diabetes – Medifast Plus for Diabetics. Medifast Plus for Diabetics products consist of three delicious, patented shakes that have been certified 'low glycemic' by the Glycemic Research Institute.

Over 40 Medifast products qualify for 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, sodium, 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." The following abstracts include both peer-reviewed research (consisting of prospective controlled clinical trials and retrospective studies) and in-house clinical data (studies 7 & 8).

Study 1
Reference
Haddock CK, Poston WSC, Foreyt JP, DiBartolomeo JJ. "Effectiveness of Medifast supplements combined with obesity pharmacotheraphy: A clinical program evaluation." Eating and Weight Disorders. 13:95-101; 2008.

Purpose
To evaluate the long-term impact of Medifast meal-replacement supplements (MMRS) combined with appetite-suppressant medication (ASM) among participants who received 52 weeks of treatment as part of a medically supervised weight-control program.

Results

Participants who completed 52 weeks of treatment experienced substantial weight losses at 12 (-9.4 + 5.7kg), 24 (-12.0 + 8.1kg), and 52 weeks (12.4 + 9.2kg), and all measures were significantly different from baseline weight ($p<0.001$ for all contrasts) for both true completers (n=324) and for ITT analysis (n=1,351). Fifty percent of patients remained in the program at 24 weeks and nearly 25% were still participating at one year. Results were better than those typically reported for obesity pharmacotherapy in both short- and long-term studies, and also better than those reported for partial meal-replacement programs.

This study was published in the June 2008 issue of Eating and Weight Disorders. Results of this study were presented at the American Society of Bariatric Physicians' annual meeting in May 2007.

Study 2

Reference

Davis LM, Coleman CD, Andersen WS, Cheskin LJ. "The effect of metabolism-boosting beverages on 24-hr energy expenditure." The Open Nutrition Journal. 2:37-41; 2008.

Purpose
To test the effect of thermogenic meal-replacement beverages (TMRB) containing 90 mg of EGCG and 100 mg of caffeine on resting energy expenditure (REE). Thirty adults (19 women, 11 men) were stratified into 3 groups: lean (n=10, BMI 21.5 + 2.1); overweight/obese (OW) (n=10, BMI 29.8 + 2.7); or weight maintainers (WM) (n=10, BMI 28.8 + 4.0). Following an overnight fast, baseline measurements, including REE via indirect calorimetry, were performed. REE was repeated at 30, 60, 90, and 120 minutes after consuming a TMRB. Appetite was assessed via visual analogue scale at baseline, 30 minutes, and 120 minutes after consuming the TMRB.

Results
Mean 24-hour REE was increased 5.9 + 2.5% overall (p=0.000), 5.7 + 3.1% among lean subjects (p=0.0002), 5.3 + 1.4% among OW subjects (p=0.000), and 6.8 + 2.7% among WM subjects (p=0.0007). Appetite was significantly reduced 30 minutes after consuming the TMRB (p=0.0002). TMRBs appear to be a promising weight-control tool.

This study was presented as a poster session at Experimental Biology, 2008.

Study 3
Reference
Cheskin LJ, et al. “Efficacy of meal replacements versus a standard food-based diet for weight loss in type 2 diabetes.” The Diabetes Educator. 34(1):118-127; Jan/Feb 2008.

Purpose
To compare the efficacy of a portion-controlled meal-replacement diet (PCD) to a standard diet (SD) (based on recommendations by the American Diabetes Association) in achieving and maintaining weight loss among 119 obese men and women with type 2 diabetes mellitus.

Results
Using intention-to-treat analyses, weight loss at 34 weeks and weight maintenance at 86 weeks was significantly better on PCD versus SD. Approximately 40% of the PCD participants lost >5% of their initial weight compared with 12% of those on the SD. Significant improvements in biochemical and metabolic measures were observed at 34 weeks in both groups. The retention rate and self-reported ease of adherence in the PCD group were significantly higher throughout the study.

This study was published in the January/February 2008 issue of The Diabetes Educator. The peer-reviewed journal is the official journal of the American Association of Diabetes Educators. The study was also presented at the American Diabetes Association’s 65th Annual Scientific Session, 2005.

Study 4
Reference
Cheskin LJ, et al. “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.” Johns Hopkins Bloomberg School of Public Health, Center for Human Nutrition, Department of International Health.

Purpose
To compare the safety and efficacy of supplemental Medifast portion-controlled meal replacements (MRs) to a USDA Food Guide Pyramid-based diet. Both weight-loss diets were 20% energy-restricted (~500 kcal deficit). Eighty children (8-15 y.o.), BMI>95th%ile, were screened and randomized to either a MR diet (3 MRs/d during active weight loss and 2 MRs/d during maintenance) or to the food-based diet. Subjects were further randomized to dieting alone or with a parent.

Results
By ITT analysis, dieting alone vs. with a parent or food vs. MR made no difference in weight outcome. However, following initial weight loss (6 mos) and 1 yr maintenance (18 mos), significant benefits were seen in the MR group in BMI%ile (0 mos=98.8 + 1.0, 6 mos=96.6 + 3.2, 18 mos=96.4 + 3.4); body fat (5.9% @ 6 mos, 5.3% @ 18 mos); total cholesterol (6.7% @ 6 mos, 5.6% @ 18 mos); LDL (19.8% @ 6 mos, 7.9% @ 18 mos); and triglycerides (23.6% @ 6 mos, 22.3% @ 18 mos). No significant betweengroup differences, differences in growth rates, or adverse events were observed. Conclusions: Among overweight 8-15 y.o. children, dieting with or without a parent, meal replacements were as safe and effective as a food-based diet for weight loss and maintenance.

This study was presented as a poster session at Experimental Biology, 2007.

Study 5
Reference
Matalon V. "Impaired capacity to lose visceral adipose tissue during weight reduction in obese postmenopausal women with the Trp64Arg B3-adrenoceptor gene variant." Diabetes. 49:1709-1713; 2000.

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Purpose
To examine the effect of the Trp64Arg gene variant on total and visceral adipose tissue loss, and cardiovascular risk factors in response to weight reduction among 24 obese women (age 57 + 4 yrs) in a 13 + 3 mos weight reduction program of 1,200 kcal with or without the inclusion of Medifast.

Results
Whether women were carriers or noncarriers of the Trp64Arg allele, significant weight loss (-16.4 + 5.0kg vs. -14.1 + 6.2kg, NS) and reductions in body fat (-10.0 + 5.2 vs. -11.5 + 3.9kg, NS) were observed in response to a calorie-restricted program with or without Medifast. Loss of visceral adipose tissue was 43% lower in carriers of the Trp64Arg allele compared with noncarriers (-46 + 27 vs. -81 + 51cm2, p=0.05). The study concluded that older women carrying the Trp64Arg B3-adrenoceptor gene variant have an impaired capacity to lose visceral adipose tissue in response to a calorie-restricted diet.

Study 6
Reference
Matalon V. "An evaluation of weight loss following a carbohydrate and fat restricted diet with appetite suppressant and dietary supplementation." The Bariatrician. 10-13; 2000.

Purpose
To assess the safety and effectiveness of a weight-loss regimen consisting of a carbohydrate- and fat restricted diet supplemented with an appetite suppressant, a dietary supplement, and a liquid protein drink (Medifast) in an open label trial. Baseline and 6-mos evaluations of body weight (lbs), body fat (%), BMI (kg/m2), lean body mass, water weight, and blood pressure were performed. At 6 mos, statistically significant differences were found for body weight (p<0.001), percent body fat (p<0.001), BMI (p<0.001), lean body mass (p<0.001), water weight (p=0.01), and body systolic (p=0.003) and diastolic (p<0.001) blood pressure.

Results
Of 47 patients enrolled, 24 (51%) completed six months using the dietary regimen prescribed. Data was analyzed for all patients who were treated with the diet, as well as for the subset of patients who completed the entire study period. The dietary regimen showed that a carbohydrate- and fat restricted program supplemented by a natural appetite suppressant can lead to progressive weight loss of comparable value to prescribed pharmacologic agents at the time of study. Patients in the study experienced statistically significant decreases in overall body weight, percent body fat, BMI, lean body mass, total body water, and both systolic and diastolic blood pressure.

Study 7
Reference
Crowell MD, Cheskin LJ. "Multicenter evaluation of health benefits and weight loss on the Medifast weight management program." The Johns Hopkins University School of Medicine.

Purpose
To retrospectively evaluate the efficacy of a medically supervised, protein-supplemented modified program (Medifast) for weight reduction and to evaluate the impact of weight reduction on coexisting health problems.

Results
The results of the study concluded that medically supervised, protein-sparing meal-replacement programs 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 total cholesterol and triglycerides, systolic and diastolic blood pressure, and normalized blood pressure in hypertensive patients.

Study 8
Reference
Davis LM, Cheskin LJ. “Dietary intervention using Medifast meal replacements in pre-bariatric surgery patients.” Johns Hopkins Weight Management Center; 2006.

Purpose
N=14 severely obese patients—13 females (11 African Americans, 2 Caucasians) and 1 male (Caucasian)—with a mean BMI of 64.14 kg/m2 (range 40.2kg/m2 to 91.7kg/m2) entered a 6-month weight-control program at the Johns Hopkins Weight Management Center. All patients were Medicaid (Priority Partners) recipients. The program provided a comprehensive approach to weight control focused on diet, behavior, and physical activity. Portion-controlled meal replacements (MRs) supplied by Medifast were utilized as part of the dietary-behavior intervention. All subjects met with a licensed dietitian and were prescribed a 1,000-1,200 kcal/day diet plan incorporating up to 6 MRs/day. Only 1 subject chose not to incorporate meal replacements as part of a low-calorie diet plan. The average intake of meal replacements was 2.5-3 per day through the duration of the study.

Results
After 6 months on the program, patients lost an average of 26.73 lbs (-2.86kg/m2) and 6.96% body weight, and reported a high level of satisfaction with their diet plan. Program completers at 1 month were N=13, at 3 months N=12, and 6 months N=10.

A statistical review of patient charts, unpublished data on file. 2006.
Scientific Advisory Board

In September 2008, Medifast announced the formation of its Scientific Advisory Board.

The role of the Board is to continually review the effectiveness, safety, and nutritional benefits of Medifast's products and programs. The team of specialists will also assist in the development of new Meals and supplements, as well as weight-loss approaches for specific medical needs (i.e., patients with heart disease) or lifestyles (vegetarians, etc.).

The work of this cross-disciplinary group builds on Medifast's heritage of medically sound approaches to weight loss, and the incorporation of leading-edge clinical research into the company's products and programs.

Lawrence Cheskin, M.D.
Director of the Johns Hopkins Weight Management Center in Baltimore, MD

Miriam Cohen, M.D., F.A.C.C.
Cardiologist and Assistant Professor at the University of Maryland Medical School

Scott Kahan, M.D., M.P.H.
Instructor at the Johns Hopkins Bloomberg School of Public Health

Varsha Vaidya, M.D.
Assistant Professor of Psychiatry and General Internal Medicine at Johns Hopkins University School of Medicine, Director of the Obesity Psychiatry program at Johns Hopkins Bayview Medical Center

Alison Duncan, Ph.D., RD
Associate Professor, Department of Human Health and Natural Sciences at University of Guelph, Functional Foods Expert

Debra L. Miller, Ph.D.
Director of Nutrtion at the Hershey Company

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, 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, the Medifast products have been safely and effectively used by customers and recommended by physicians for over 28 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. 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, New! Medifast Momentum Drinks, New! Momentum Flavor Infusers, New! Antioxidant Shakes, New! Antioxidant Flavor Infusers, New! Super Omega 3, Medifast® Bars, New! Medifast Crispy Bars, Medifast® Creamy Soups, Medifast® Chicken Noodle Soup, Medifast® Chicken & Wild Rice 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, and Medifast® Crackers.

Medifast nutritional products are formulated with high-quality, low-calorie, and 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, meal replacement bars, crackers, soy crisps and omega 3 capsules.

NEW PRODUCTS

In 2008, the Company expanded the Medifast product line in 2008 by introducing a new line of metabolic boosters. This product line includes shakes and flavor infusers (to flavor water) that includes a specific blend of caffeine and epigallocatechin gallate (EGCG), designed to help burn calories and fat. Consuming three of these products a day can help burn an extra 100 calories per day.

The Company also added new products aimed at optimizing health. The first of these products was a new supplement line- Super Omega 3. This product boasts one of the highest concentrations of docosahexanoic acid (DHA) and eicosapentanoic acid (EPA) on the market as well as organic Flax Seed for healthy hair, skin, and nails. This product services a variety of needs from decreasing body fat to improving satiety, to providing cardioprotection to prevention of cognitive decline. The Company also designed a special line of antioxidant infusers and shakes. Each Shake and Infuser gives you the antioxidant power of two full servings of fruits and vegetables.

Medifast also began its plan to expand the Medifast bar line to include Crispy bars that are fully interchangeable with all the other meals in the program. In the past, bars could only be enjoyed once a day because of the higher calorie and carbohydrate level. The new bars contain only 110 calories, 11g of protein, less than 13g of carbohydrates and are fully fortified with 20% of the RDI for 24 Essential Vitamins and Minerals. These new bars are available in Chocolate, Chocolate Mint, Peanut Butter, Oatmeal Raisin, Cinnamon Roll, Strawberry Crunch, Caramel, Lemon, Fruit & Nut, and Smores flavors.

MARKETING

In 2008, the Company continued to build and leverage its core Medifast brand through multiple marketing strategies to its target audiences. Customer acquisition strategies include national advertising in print magazines, television commercials, web advertising, direct mailings, radio commercials, and DJ testimonials. In addition, the Company executed strategic public relations efforts to secure local and national editorial placements to raise brand awareness. These mediums were used to target new customers by stressing Medifast's quick, easy and safe approach to weight management. The Company invested in two celebrity contracts with preliminary marketing and media campaigns launching in late 2007 and extending into 2009. Direct mail campaigns, e-mail newsletters and outbound calling programs were utilized to reactivate, encourage and support existing customers. Medifast continued to enhance the Medifast website including adding features in the “My Medifast” community which offers meal planning, community message boards, blogs and a robust library of information. The Company also continued to feature customer blogs on the website for potential customers to interact with loyal Medifast customers. Late in 2007, the Company launched an auto ship loyalty program where customers receive discounts and rewards with automatic shipments of Medifast Meals on a monthly basis. Both the MyMedifast community enhancements and Auto-ship programs contribute to the retention of Medifast customer through improved compliance with the program.

SALES

The Company's Sales division handles three primary areas:

Physician Sales - The sales team is responsible for prospecting medical accounts, clinics, hospitals, and HMOs. During 2008, the sales team attended a number of medical professional trade shows, which expanded Medifast's penetration of the medical weight loss business segment.

Medifast Weight Control Center Franchises - 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. Franchise sales seek qualified partners to develop defined market territories.

International - Sales manages our bulk export business and has responsibility to qualify and develop new international business partners.

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 have significantly improved 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, 2008, the Company employed 290 full-time employees, of whom 156 were engaged in manufacturing, warehouse management, and shipping, and 134 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

Our website, which is based on internally developed software and other third party software, is hosted in San Francisco, California at a ServePath co-location facility. This facility provides redundant network connections, an uninterruptible power supply, physical and fire security and diesel generated power back up for the equipment on which our website relies upon. Our servers and our network are monitored 24 hours a day, seven days a week.

We use a variety of security techniques to protect our confidential customer data. When our customers place an order or access their account information, we use a secure server (SSL) to transfer information. Our secure server software encrypts all information entered before it is sent to our server. All customer data is protected against unauthorized access. We use PayPal, VeriSign and HackerSafe software to secure our credit card transactions.

OTHER MATTERS

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

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

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

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.ChooseMedifast.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. The Company will furnish without charge a copy of the Company's Annual Report on Form 10-K, including the financial statements and schedules thereto, to any person requesting in writing and stating that he or she is the beneficial owner of Common Shares of the Company.

Requests and inquiries should be addressed to:

Investor Relations
Medifast, Inc.
11445 Cronhill Dr.
Owings Mills, MD 21117

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CERTIFICATIONS

The Company's Chief Executive Officer and Chief Financial Officer have filed their certifications as required by the Securities and Exchange Commission (the "SEC") regarding the quality of the Company's public disclosure for each of the periods ended during the Company's fiscal year ended December 31, 2008 and the effectiveness of internal control over financial reporting as of December 31, 2008 and 2007. Further the Company's Chief Executive Officer has certified to the New York Stock Exchange ("NYSE") that he is not aware of any violation by the Company of the NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE listing standards.

EXECUTIVE OFFICERS OF THE COMPANY

Name	Age	Position
Bradley T. MacDonald	61	Chairman of the Board of Directors
Michael S. McDevitt	30	Chief Executive Officer and Chief Financial Officer
Leo V. Williams	61	Executive Vice President
Margaret MacDonald- Sheetz	31	Chief Operating Officer and President
Brendan N. Connors	31	Vice President of Finance

Bradley T. MacDonald
Mr. MacDonald became Chairman of the Board of Medifast, Inc. on January 28, 1998. Mr. MacDonald was previously employed by the Company as its Chief Executive Officer from September 1996 to March 2007. 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 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 was appointed and served on the Defense Advisory Board for Employer Support of the Guard and Reserve (ESGR.) Mr. MacDonald serves on the Board of Directors of Stevenson University in Maryland, and the Institute of Notre Dame High School, Baltimore, Maryland. He is also the Vice-Chairman on the Board of Directors of the Marine Corps Reserve Toys for Tots Foundation.

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. In March of 2007, Mr. McDevitt was promoted to CEO of the Company. 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 V. 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 served as the Vice-Chairman of the Board, Marine Corps Toys for Tots Foundation. Currently, he serves on the Board of Directors of the Direct Selling Association, U.S. Naval Academy Foundation, Maryland Chapter of the American Diabetes Association, Naval Academy Alumni Association Board of Trustees, Board of Trustees for the University of the District of Columbia, and on the Navy Mutual Aid Association Board.

Margaret MacDonald - Sheetz, MBA
Ms. Sheetz 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. Sheetz received an Executive MBA from Loyola University. In March 2007, she was promoted to President and Chief Operating Officer of Medifast Inc.

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 spent 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. several years ago and had an impact on many weight loss companies. Another fad diet could sweep the nation or consumer preferences could change. Our failure to adapt or respond quickly enough to these changes could 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.

Our ability to compete could be negatively affected in the event we fail to protect our brand names, trademarks or other intellectual property

Because our business relies heavily on direct to consumer models, brand awareness is an important factor in our sales strategy. Failure to protect our brand or maintain an image of good standing with the public could result in a negative effect on our operations. Additionally, failure to protect our intellectual property could result in the arrival of a similar competitor which could reduce our competitive edge or decrease our market share.

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.

Any deficiencies or shortcomings in our information technology could prevent an efficient execution of routine business procedures

We rely heavily on our IT infrastructure to support major business components. Any disruption to the integrity of this support structure including but not limited to; software, telecommunications, Electronic Resource Platform, or the Information Technology architecture as a whole could severely limit our ability to provide customers and vendors with adequate service and operating responses. In addition, our financial reporting is directly correlated with our company-wide software Microsoft Navision 4.0. Any compromise in the veracity of this system could severely alter the accuracy of our tracking, volumes, and general reporting including financial statements.

A disruption in the supply of raw materials or the inability of third party manufacturing for certain products could affect operating results

We rely heavily on our vendors to provide quality raw materials for us to utilize in our on-site manufacturing processes. Any disruption in the availability of these materials could potentially interrupt our ability to provide certain products to customers in a timely manner. Also certain products are currently manufactured through a third party. The availability of these products is prone to fluctuations dependent on the manufacturer's ability to secure and produce a quality product that satisfies our satisfaction standards.

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.

Since we cannot exert the same level of influence or control over our independent health coaches as we could were they our own employees, our health coaches could fail to comply with our policies and procedures, which could result in claims against us that could harm our financial condition and operating results.

Our health coaches are independent contractors and, accordingly, we are not in a position to directly provide the same direction, motivation and oversight as we would if health coaches were our own employees. As a result, there can be no assurance that our health coaches will participate in our marketing strategies or plans, accept our introduction of new products, or comply with our health coach policies and procedures.

Extensive federal, state and local laws regulate our business, products and direct selling program. While we have implemented health coach policies and procedures designed to govern their conduct and to protect the trademarks and brand of the Company it can be difficult to enforce these policies and procedures because of the large number of health coaches and their independent status. Violations by our independent health coaches of applicable law or of our policies and procedures in dealing with customers could reflect negatively on our products and operations and harm our business reputation. In addition, it is possible that a court could hold us civilly or criminally accountable based on vicarious liability because of the actions of our independent health coaches.

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.

Adverse publicity associated with our products, ingredients, or sales channels, or those of similar companies, could harm our financial condition, operating results, and stock price.

Adverse publicity, whether or not accurate, relating to the Company, our products or our operations, our sales channels and independent health coaches could adversely impact the Company's financial condition, operating results, and stock price. In addition, it could lead to lawsuits or other legal challenges and could negatively impact our reputation, the market demand for our products, or our general business.

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.

The loss of key personnel could adversely affect our ability to operate and result in a negative financial condition

Certain members of our Company oversee integral components of our Company. Although we do not anticipate the departure of any key employees including but not limited to the executive management team, we cannot guarantee their tenure indefinitely in the future.

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 production, operation, and advertising. The FTC and certain states regulate advertising, disclosures to consumers, privacy, consumer pricing or billing arrangements, and other consumer matters. Our direct selling distribution channel is subject to risk of interpretation of certain laws pertaining to the prevention of “pyramid” or “chain sale” schemes. Although we believe we are in full compliance, should the governing body alter or enforce the law in an unanticipated way, there may be a negative result on the company’s operations. The Company’s financial reporting is subject to various laws and regulations as well, specifically, the Sarbanes-Oxley Act of 2002 and the SEC. These requirements demand the Company disclose certain information and maintain specific controls to ensure fair and legal accounting practices as outlined therein. The Company has taken substantial measures to ensure compliance through routine internal and external audits. Failure to correct any flaws in internal controls may constitute a public notification of weakness and could have an adverse effect on our stock price. Additionally, the Company is required to maintain a position of good standing in regards to taxation on both a Federal and State level. Failure to comply with federal and state regulations could result in additional taxes, fines, or interest due that could financially strain the company. Future laws and regulations could be unforeseen and potentially have a material negative impact on the Company. Failure to comply with any regulations of current or future authoritative entities could have a detrimental effect on the Company’s financial standing or operating results

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 twenty leases for its corporately owned Medifast Weight Control clinics throughout Florida and Texas. In addition, the Company leases a building in Owings Mills, MD for corporate offices. The leases range in terms from one to six years.

ITEM 3. LEGAL PROCEEDINGS

Leonard Z. Sotomeyor, on December 30, 2003, filed an action in the Supreme Court of the State of New York, County of New York, against his former business partner, David Scheffler, and T-1 Holdings, LLC, and included Medifast, Inc., formerly Heathrite, Inc., as a Defendant, Case 604076-03, seeking monetary damages for failure of his former business partner to compensate him under several consulting agreements with Medifast, Inc. made with H-T Capital, Inc. and derivatively on behalf of T-1Holdings, LLC. All parties, including Medifast, Inc. recently reached a global settlement including dismissal of the litigation with prejudice and general releases. On October 17, 2008, Medifast agreed to pay legal fees in the amount of $130,000 in cash, and 14,286 shares of Medifast treasury stock valued at $70,000 to settle the case. Mr. Sotomayor also received 29,647 Medifast, Inc. warrants with a strike price of $4.80 a share from Mr. David Scheffler. The Board of Directors approved a settlement that was considered significantly less costly than the future litigation costs for defense. Medifast vehemently denied the alleged charges in the complaint and had fortuitous defenses that it believes would have prevailed in a trial. The total impact of the settlement to Medifast, Inc. was a one time charge to earnings of approximately $200,000 in the fourth quarter of 2008.

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 2008 and 2007:

	2008	
	Low	High
Quarter ended March 31, 2008	3.68	4.99
Quarter ended June 30, 2008	4.35	6.68
Quarter ended September 30, 2008	4.80	8.85
Quarter ended December 31, 2008	3.52	6.79

	2007	
	Low	High
Quarter ended March 31, 2007	6.03	12.40
Quarter ended June 30, 2007	6.32	9.25
Quarter ended September 30, 2007	5.58	8.83
Quarter ended December 31, 2007	3.79	6.24

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

(c) There were approximately 208 record holders of the Company's Common Stock as of March 13, 2009. 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, 2008.

(d) No dividends on common stock were declared by the Company during 2008 or 2007.

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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, 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. The historical results provided below are not necessarily indicative of future results.

	2008	2007	2006	2005	2004
Revenue	105,445,000	83,779,000	74,086,000	40,129,000	27,340,000
Operating income	8,199,000	5,715,000	7,381,000	3,549,000	3,004,000
Income from continuing operations	7,850,000	5,543,000	7,463,000	3,405,000	2,906,000
EPS - basic	0.41	0.30	0.41	0.17	0.16
EPS - diluted	0.38	0.28	0.38	0.17	0.14
Total assets	51,037,000	43,724,000	36,677,000	30,120,000	25,968,000
Current portion of long-term debt and revolving credit facilities	3,421,000	1,863,000	1,804,000	1,194,000	827,000
Total long-term debt	4,313,000	4,570,000	3,509,000	3,977,000	4,256,000
Weighted average shares outstanding					
Basic	13,126,534	12,960,930	12,699,066	12,258,734	10,832,360
Diluted	14,329,525	13,644,149	13,482,894	12,780,959	12,413,424

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
2008 COMPARISON WITH 2007

OPERATING

Revenue: Revenue increased to $105.4 million in 2008 as compared to $83.8 million in 2007, an increase of $21.6 million or 26%. The Take Shape for Life sales channel accounted for 47% of total revenue, direct response marketing 42%, brick-and-mortar clinics 8%, and doctors 3%. Take Shape for Life sales, which are fueled by person-to-person recruiting and support increased by 79% year-over-year. The Company's Medifast Weight Control Center clinic division , increased sales by 68% as compared to 2007 due to the opening of new clinics in 2008. The direct marketing sales channel, which is fueled primarily by consumer advertising, decreased revenues by approximately 6% year-over year on less advertising spend. The Company's doctor's sales decreased by 24% compared to 2007 due to certain doctors transitioning to the professional division of Take Shape for Life.

The Take Shape for Life division grew 79% year-over-year. This growth can largely be attributed to the tools and training that led to an increase in the ability of the division to both promote growth in recruiting of health coaches and acquisition of clients, as well as better supporting this growth as it occurs. This continued investment proved to be a large part of the current growth trends in Take Shape for Life sales, as well as the number of active health coaches and clients. The growth in this segment correlates directly to the increase in health coaches, which began to accelerate following our National Convention in July 2008. The number of active health coaches grew 84% to 3,400 at the end of the fourth quarter of 2008 as compared to 1,850 for the same time period in 2007. The Company completed our 2008 National Convention in Orlando, FL on July 26th, 2008 where approximately 750 health coaches participated, an increase of nearly 88% from prior year. The individuals that attended the event attended workshops and heard lectures by accredited individuals in the areas of recruiting, product and nutrition knowledge, and business skills.

The Medifast Weight Control Centers, which represent approximately 8% of the Company's overall revenues, are currently operating in twenty locations in Dallas, Houston, and Orlando. In 2008, the Company experienced revenue growth of 68% versus the same time period last year. The average monthly revenue per clinic also witnessed growth of 6%, averaging $38,000 per clinic in 2008 as compared to $36,000 in 2007. In the expanding Dallas, TX market, the average monthly revenue per clinic is approximately $50,000. In the estimated $40 billion weight loss and health living industry, the brick and mortar clinic model has always made up a significant portion of overall sales. The recent growth in the Medifast Weight Control Centers has proven that the model is in high demand from a select portion of the weight loss consumers. Throughout the year, the Company invested in the infrastructure of its clinic model. The major aspects of the investment in this division included an expanded support team, the creation of a point of sale system, a robust customer data tracking system, and finalizing the franchise opportunity documentation. During 2008, the Company opened eight additional corporately owned clinics in the Houston, TX market and two additional centers in the Dallas, TX market.

On February 18, 2008, the Company announced that it has sold its first franchise of Medifast Weight Control Centers. The Company sold the rights to open four clinics in the Greater Baltimore Metropolitan Area. The franchisee also has the rights to open four additional Medifast Weight Control Centers in the Baltimore area over the next two years, bringing the total to eight locations. On June 3, 2008 the Company announced that it sold the rights to open four Medifast Weight Control Centers in Southern California and three Medifast Weight Control Centers in Central California to two different local business operators. On October 8, 2008, the Company announced the opening of its first franchise clinic in the Baltimore, MD area. In December 2008, three Medifast Weight Control Center franchise locations opened in Southern California and one location opened in Central California. At December 31, 2008, five franchise locations were in operation.

Overall, selling, general and administrative expenses increased by $15.3 million as compared to 2007. Take Shape for Life commission expense, which is completely variable based upon revenue, increased by approximately $10.1

million as the Company showed sales growth of 79% as compared to 2007. Salaries and benefits increased by approximately $2 million in 2008. The increase includes the hiring of additional expertise in critical areas such as Take Shape for Life and the Medifast Weight Control Centers to support the strong growth in 2008 and beyond. Also, additional personnel were hired in the call center during the first and second quarters of 2008 as the Company brought the outsourced Take Shape for Life call center in-house early in the second quarter of 2008. Going forward, savings will be realized on communication expense as a result of bringing the call center in-house. The opening of eight new corporately owned clinics in the Houston, TX market and two in the Dallas, TX market also required the hiring of additional center managers and support staff. Advertising expense in 2008 was approximately $17.8 million compared to approximately $18.4 million for the same period last year, a decrease of $600,000. Communication expense decreased by $200,000 as a result of the Take Shape for Life call center moving in-house during the second quarter of 2008. Other expenses increased by $2.4 million which included items such as depreciation, amortization, credit card processing fees, charitable contributions, and property taxes. Operating expenses increased by $950,000 which primarily resulted from additional printing expense for our direct to consumer postcard mailings and Take Shape for Life printed material, as well as maintenance, repairs, and supplies for our manufacturing and distribution facilities. Office expenses increased by $300,000 and stock compensation expense increased by $225,000 as additional restricted shares were issued to key executives and Board members in the third and fourth quarters of 2008.

Costs and Expenses Cost of revenue increased $3.9 million to $25.3 million in 2008 from $21.5 million in 2007. As a percentage of sales, gross margin increased to 75.9% in 2008 from 74.4% in 2007. The margin improved due to efficiencies gained from new machinery purchases in prior year, new shipping rules that resulted in additional shipping revenue from customers netting against shipping expense, as well as a price increase on July 1, 2008.

Other Income/Expense: Other expense increased from a $172,000 in 2007 to $349,000 at December 31, 2008. The $177,000 increase in other expense resulted primarily from realized losses of $216,000 on the Company's equity investment portfolio managed by Merrill Lynch due to the weakness of the stock market in 2008. Other income/expense consists of interest expense on debt, gains or losses on the sale of equity investments, dividends and interest on equity and bond investments, and interest payments received on the CCS note receivable. In 2007, the Company also realized other income when it exercised a stock warrant from a former business partner, and realized a loss on disposal of assets relating to the closing of three Medifast Weight Control Centers.

Income taxes: In 2008, we recorded $2,415,000 in income tax expense which represents an effective rate of 30.8%. In the fourth quarter of 2008, the Company amended prior year tax returns to properly roll forward prior net operating losses for tax purposes which resulted in a $162,000 tax refund receivable at December 31, 2008. The effective rate would have been 32.8% without the benefit of the tax refund. In 2007, we recorded $1,706,000 in income tax expense, which represents an annual effective rate of 30.8%. The Company anticipates a tax rate of approximately 35-37% in 2009.

Net income: Net income was $5.4 million in 2008 as compared to $3.8 million in 2007, an increase of 42%. The improved profitability during 2008 is due to sales growth in the Take Shape for Life division and Medifast Weight Control Centers, and gross margin improvement.

SEGMENT RESULTS OF OPERATIONS

Net Sales by Segment as of December 31,

	2008		2007		2006	
Segments	Sales	% of Total	Sales	% of Total	Sales	% of Total
Medifast	97,116,000	92%	78,861,000	94%	70,181,000	95%
All Other	8,329,000	8%	4,918,000	6%	4,015,000	5%
Eliminations		0%		0%	(110,000)	0%
Total Sales	105,445,000	100%	83,779,000	100%	74,086,000	100%

2008 vs. 2007

Medifast Segment: The Medifast reporting segment consists of the sales of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the "Consolidated Results of Operations" management discussion for 2008 vs. 2007 above.

All Other Segment: The All Other reporting segment consists of the sales from Hi-Energy and Medifast Weight Control Centers. Sales increased by $3,411,000 year-over year due to the opening of ten new centers throughout 2008, including eight centers in Houston, TX and two centers in Dallas, TX. The Dallas, TX market continues to mature with the average clinic generating approximately $50,000 per month in sales. The Company is continuing to focus on improved advertising effectiveness, improved closing rates on walk-in sales, as well as the hiring of more experienced clinic. At the end of 2008, there were twenty corporately owned centers opened as compared to ten centers at the end of 2007. In addition, the Company began franchising the Medifast Weight Control Center model in

2008. At the end of 2008, there were five franchise centers in operation.

2007 vs. 2006

Medifast Segment: The Medifast reporting segment consists of the sales of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the "Consolidated Results of Operations" management discussion for 2007 vs. 2006 above.

All Other Segment: The All Other reporting segment consists of the sales from Hi-Energy and Medifast Weight Control Centers. Sales increased by $903,000 year-over year as a result of an increase in Medifast Weight Control Centers sales of $1,013,000. Sales to Hi-Energy licensees decreased by $110,000 as fewer Hi-Energy licensee clinics remain in operation as clinics convert to Medifast Weight Control Centers. The increase in Medifast Weight Control Center's sales was due to a renewed focus on the expansion of the corporate clinics, 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. There were ten clinics open at the end of 2007 as compared to twelve at the end of 2006.

Net Profit by Segment as of December 31,

	2008		2007		2006	
Segments	Profit	% of Total	Profit	% of Total	Profit	% of Total
Medifast	8,104,000	149%	5,937,000	155%	6,218,000	121%
All Other	(2,669,000)	-49%	(2,100,000)	-55%	(952,000)	-18%
Eliminations		0%		0%	(110,000)	-2%
Net Profit	5,435,000	100%	3,837,000	100%	5,156,000	100%

2008 vs. 2007

Medifast Segment: The Medifast reporting segment consists of the profits of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the "Consolidated Results of Operations" management discussion for 2008 vs. 2007 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, Medifast Weight Control Centers, and corporate expenses related to the parent company operations. Year-over-year, the loss in the All Other segment increased by $569,000.   The Hi-Energy and Medifast Weight Control Centers showed an increase in net profitability year-over-year of $339,000.   The increase in profitability was due to improved profitability in established centers. During the year, ten new centers were opened and should have a positive impact on 2009 earnings.   Medifast Corporate expenses increased by $908,000 year-over-year. Corporate expenses include items such as auditors' fees, attorney's fees, Board of Director expenses, investor relations, corporate consulting, and corporate outings. In 2008, the Company had additional legal expenses associated with the Sotomayor legal action that resulted in a $200,000 one time charge to earnings in the fourth quarter of 2008. See Item 3 – Legal Proceedings on page 16 for more detail. In addition, the Company had an increase in realized losses on equity securities in its investment account in the fourth quarter of 2008 due to the weakness in the stock market. See footnote 17, "Business Segments" for a detailed breakout of expenses.

2007 vs. 2006

Medifast Segment: The Medifast reporting segment consists of the profits of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the "Consolidated Results of Operations" management discussion for 2007 vs. 2006 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, Medifast Weight Control Centers, and corporate expenses related to the parent company operations. Year-over-year, the loss in the All Other segment increased by $1,148,000. Corporate expenses increased by $401,000, as a result of increased fees due to increased reporting requirements for the Company as a whole. These fees include, but are not limited to auditors' fees, attorneys' fees, board of director expenses, investor relations, corporate consulting, education and training, and corporate outings. Hi-Energy and Medifast Weight Control Center expenses increased by $726,000 due to increased focus on opening new Medifast Weight Control clinics, hiring of experienced personnel, increased advertising and developing the Franchise model. See footnote 17, "Business Segments" for a detailed breakout of expenses.

Contractual Obligations and Commercial Commitments

As of December 31, 2008, 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 support our marketing efforts.

The Company has the following contractual obligations as of December 31, 2008

	Payments due by period						
	2009	2010	2011	2012	2013	Thereafter	Total
Contractual Obligations							
Total Debt	3,420,000	257,000	494,000	225,000	225,000	3,113,000	7,734,000
Operating Leases	926,000	819,000	776,000	676,000	227,000	-	3,424,000
Copier Equipment Service Contracts	399,000	355,000	334,000	283,000	-	-	1,371,000
Total contractual obligations	4,745,000	1,431,000	1,604,000	1,184,000	452,000	3,113,000	12,529,000

LIQUIDITY AND CAPITAL RESOURCES

The Company had stockholders' equity of $38,173,000 and working capital of $12,669,000 on December 31, 2008 compared with $32,420,000 and $10,395,000 at December 31, 2007, respectively. The $5.8 million net increase in stockholder's equity reflects $5.4 million in 2008 profits as well as equity transactions as outlined in the "Consolidated Statement of Changes in Stockholders' Equity and accumulated other comprehensive income (loss)." The Company's cash and cash equivalents position decreased from $2.2 million at December 31, 2007 to $1.8 million at December 31, 2008. The decrease is due to large inventory purchases in the fourth quarter of 2008 to include ten new meal replacement bars as well as an increase in inventory levels in preparation for the "diet" season beginning in January 2009. In addition, the Company's capital expenditures increased by approximately $2.3 million in 2008 as compared to 2007. In 2008, capital expenditures included the opening of ten new Medifast Weight Control Centers, development of a point-of-sale system for the Clinics, development of a new web shopping platform for the direct response segment, new software system for our Take Shape for Life division, ERP enhancements, and phone system upgrades.

In September 2007, Medifast, Inc.'s wholly owned subsidiary Jason Pharmaceuticals, Inc. increased its Secured Line of Credit from $5 million to $7.5 million and moved the line of credit from Mercantile Safe-Deposit and Trust to Merrill Lynch. The line of credit is at LIBOR plus 1.3 percent. The increased line may be used to finance fixed assets, advertising, and inventory of Medifast, Inc. The Company currently has no off-balance sheet arrangements.

In the year ended December 31, 2008 the Company generated cash flow of $5,496,000 from operations, primarily attributable to higher operating income. This was offset by net changes in operating assets and liabilities that decreased cash flow by $4,781,000.   The total use of cash from operations was $6,649,000. The largest use of cash was for the purchase of inventory. During 2008, inventory increased by $4.7 million. Inventory increased due to our increased sales, introduction of ten new meal replacement bars late in the fourth quarter of 2008 as well as the typical fourth quarter inventory build-up in order to prepare for "diet season" in the first quarter of 2009. Additional uses of cash included an increase in prepaid taxes of $1.1 million, increase in other assets of $251,000, and a reduction in income taxes payable of $592,000. This was offset by sources of cash from a decrease in accounts receivable -

$43,000, decrease in prepaid expenses - $693,000, decrease in deferred compensation - $282,000, and an increase in accounts payable - $850,000.

In the year ended December 31, 2008, net cash used in investing activities was $7,313,000, which primarily consisted of the purchase of property and equipment. The increase in property and equipment relates to the building of a large amount of infrastructure in 2008 to support growth. This included the opening of ten new Medifast Weight Control Center locations, development of a point-of-sale system for the Medifast Weight Control Centers, development of a new web shopping platform for the direct response segment, new software system for our Take Shape for Life division, ERP enhancements, IT infrastructure to support new systems, phone system upgrades, and leasehold improvements to manufacturing and distribution facilities to support future growth.

In the year ended December 31, 2008, financing activities generated $1,463,000 in cash flow. Sources of cash included funds drawn from the line of credit - $1.6 million, a decrease in notes receivable - $132,000, and issuances of warrants and options exercised with cash - $32,000. This was offset by a use of cash in the repayment of long term debt - $264,000.

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.

2007 COMPARISON WITH 2006

OPERATING

Revenue: Revenue increased to $83.8 million in 2007 as compared to $74.1 million in 2006, an increase of $9.7 million or 13%. The direct marketing sales channel accounted for 56% of total revenue, Take Shape for Life 33%, doctors 5%, and brick and mortar clinics 6%. The direct marketing sales channel, which is fueled primarily by consumer advertising, increased revenues by approximately 3% year-over year. Take Shape for Life sales, which are fueled by person-to-person recruiting and support increased by 23% year-over-year. The Company's doctor's sales increased by 8% compared to 2006. The Company's clinic division which began operating under the Medifast Weight Control Center name in late 2006, increased sales by 37% as compared to 2006.

The Take Shape for Life division grew 23% year-over-year. This growth can largely be attributed to the tools and training that led to an increase in the ability of the division to both promote growth in recruiting of health coaches, as well as better supporting this growth as it occurs. This continued investment proved to be a large part of the current growth trends in Take Shape for Life sales, as well as the number of active health coaches. The number of active health coaches grew to 1,850 at the end of the fourth quarter 2007 compared to 1,200 at the same time period in 2006, an increase of 54%. This recent growth in health coaches was recently observed in July of 2007, with over 80% attendance growth at the 2007 National Convention compared to the attendance at the 2006 Convention. The Company believes that the growth in health coach activity is a positive trend that should continue, and will lead to significant revenue growth in the near future

The Medifast Weight Control Centers, which represent approximately 6% of the Company's overall revenues, are currently operating in ten locations in Dallas and Orlando. In 2007, the Company experienced revenue growth of 37% versus the same time period last year. The average monthly revenue per clinic also witnessed significant growth of 64%, averaging $36,000 per clinic in 2007 as compared to $22,000 in 2006. In the expanding Dallas, TX market, the average monthly revenue per clinic is approximately $50,000. In the estimated $40 billion weight loss and health living industry, the brick and mortar clinic model has always made up a significant portion of overall sales. Medifast has incorporated this model with the creation of the Medifast Weight Control Centers. The recent growth in this division has proven that the model is in high demand from a select portion of the weight loss consumers. The Company believes that with the recent industry launches of over-the-counter and anticipated launches of prescription appetite suppressant medications that this model will continue to grow. Therefore, throughout 2007, the Company invested in the infrastructure of its clinic model. The major aspects of the investment in this division included an expanded executive team, the creation of a point of sale system, a robust customer data tracking system, finalizing the franchise opportunity documentation, and the beginning stages of expansion into several new locations. The Company believes this business will be a major driver of revenues and profits for the Medifast business as it continues to expand. The Company plans to continue the expansion of the Medifast Weight Control Centers with both additional corporate locations as well as offering the model through a franchise opportunity. The Company is opening four additional corporately owned clinics in the Houston, TX market by the end of the first quarter of 2008. In addition on February 18, 2008, the Company announced that it has sold its first franchise of Medifast Weight Control Centers. The Company sold the rights to open four clinics in the Greater Baltimore Metropolitan Area. The franchisee also has the rights to open four additional Medifast Weight Control Centers in the Baltimore area over the next two years, bringing the total to eight locations.

Overall, selling, general and administrative expenses increased by $8.1 million as compared to 2006. The majority of the increase was due to investments in the Company's future advertising campaigns, along with the necessary infrastructure support tools to allow the future campaigns to improve in effectiveness. Advertising expense for 2007 was approximately $18.4 million compared to approximately $14.3 million for the same period last year, an increase of $4.1 million. In the prior year, the Company benefited from a substantial editorial placement in a major consumer publication at no cost to the Company. During 2007, the Company has invested in multiple celebrity endorsement contracts as well as increased public relations expense to focus on increasing brand awareness that will benefit our future advertising campaigns. Salaries and benefits increased by approximately $1,500,000 in 2007 as the Company hired additional expertise in critical areas in order to assist in future growth and meet regulatory needs. This primarily includes IT, nutrition and product development, marketing, Medifast Weight Control Centers, and Take Shape for Life. Take Shape for Life commission expense, which is completely variable based upon revenue, increased by approximately $2,400,000. Communication expense which includes outsourced call centers decreased by $50,000. The Company has spent a significant amount of time and materials in 2007 building the future call center infrastructure with related technology and personnel. This investment will allow the call center to increase the percentage of advertising calls to be handled in-house. It is believed that this initiative will amount to significant savings and improved closing rates in the future. The reduction in outsourced call center expenses will continue in stages throughout 2008. Other expenses increased by $550,000, which included items such as depreciation, amortization, credit card processing fees, charitable contributions, and property taxes. Stock compensation expense increased by $192,000 as compared to 2006 as stock awards vest over 5 and 6 year terms for executives. These increases were offset by an approximately $250,000 decrease in office expense and the absence of a $323,000 loss resulting from the sale of the Consumer Choice Systems division in the first quarter of 2006.

Costs and Expenses: Cost of revenue increased $3.3 million to $21.5 million in 2007 from $18.2 million in 2006. As a percentage of sales, gross margin remained at approximately 75% in 2007 and 2006.

Other Income/Expense: Other income/expense decreased from $82,000 in other income in 2006 to $172,000 in other expense at December 31, 2007. Other income/expense consists of interest expense on debt, gains on the sale of equity investments, interest payments received on the CCS note receivable, and overpayments of taxes. In 2007, the Company also realized other income when it exercised a stock warrant from a former business partner, and realized a loss on disposal of assets relating to the closing of three Medifast Weight Control Centers.

Income taxes: In 2007, we recorded $1,706,000 in income tax expense, which represents an annual effective rate of 30.8%. In 2006, we recorded income tax expense of $2,307,000 which reflected an estimated annual effective tax rate of 30.9%. The Company anticipates a tax rate of approximately 32-34% in 2008.

Net income: Net income was $3.8 million in 2007 as compared to $5.2 million in 2006, which reflected a decrease of $1.4 million or 26%. The decrease was directly related to the initiatives of the Company to create its new advertising campaign and improve future capabilities to increase advertising effectiveness. Additionally, the Company did not have the benefit of the no cost editorial publication that occurred in the first quarter of 2006 that led to significant profits.

LIQUIDITY AND CAPITAL RESOURCES

The Company had stockholders' equity of $32,420,000 and working capital of $10,395,000 on December 31, 2007 compared with $27,916,000 and $9,612,000 at December 31, 2006, respectively. The $4.5 million net increase in stockholder's equity reflects $3.8 million in 2007 profits as well as equity transactions as outlined in the "Consolidated Statement of Changes in Stockholders' Equity and accumulated other comprehensive income (loss)." The Company's cash and cash equivalents position increased from $1.1 million at December 31, 2006 to $2.2 at December 31, 2006. The increase is due to improved sales in fourth quarter 2007 versus 2006 as well as timing of accounts payable.

In September 2007, Medifast, Inc.'s wholly owned subsidiary Jason Pharmaceuticals, Inc. increased its Secured Line of Credit from $5 million to $7.5 million and moved the line of credit from Mercantile Safe-Deposit and Trust to Merrill Lynch. The line of credit is at LIBOR plus 1.3 percent. The increased line may be used to finance fixed assets, advertising, and inventory of Medifast, Inc. The Company currently has no off-balance sheet arrangements.

In the year ended December 31, 2007, the Company generated cash flow of $7,954,000 from operations, primarily attributable to higher operating income. This was offset by net changes in operating assets and liabilities that decreased cash flow by $1,289,000. The largest use of cash was for the purchase of inventory. The Company builds up inventory each year in the fourth quarter in order to prepare for "diet season" in the first quarter of 2008. Additional uses of cash included the funding of the Chairman of the Boards deferred compensation plan outlined in Note 1 of the financial statements as well as prepaid advertising for January of 2008. This was offset by an increase in accounts payable and income taxes payable of $1,367,000 and $57,000, respectively.

In the year ended December 31, 2007, net cash used in investing activities was $7,969,000, 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 2007 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 in-house call center. In the fourth quarter of 2007, the Company leased an additional Xerox Igen3 printer in order to increase its direct mailing capabilities. Large customer mailings will be sent out bi-weekly throughout 2008. The increase in property and equipment relates to the building of a large amount of infrastructure in 2007. This included the purchase of a state of the art Avaya phone system, additional enhancements to our Enterprise Resource Planning System, IT server and networking upgrades, the build out of our new Medifast Weight Control Centers as well as leasehold improvements to our distribution facility in Ridgely, MD.

In the year ended December 31, 2007, financing activities generated $1,125,000 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, decrease in the CCS note receivable, 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.

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 2008. 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, 2008, there was $7.7 million of variable interest loans outstanding which is subject to interest rate risk. Interest rates on our variable rate loans ranged from 1.74% to 2.94% for the year ended December 31, 2008. Each 100 basis point increase in the bank’s LIBOR rates relative to these borrowings would impact interest expense by $77,000 over a 12-month period.

ITEM 8. FINANCIAL STATEMENTS.

The information required by this item is set forth on pages 48 to 70 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, 2008.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures
The Securities and Exchange Commission defines the term “disclosure controls and procedures” to mean a company’s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it

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

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that: (i) pertain to maintaining records that, in a reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with generally accepted accounting principles and that the receipts and expenditures of the Company are being made in accordance with management and board of director authorization; and (iii) provide reasonable assurance that unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements would be prevented or detected on a timely basis.

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.

Management evaluated the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2008.

Changes in our Internal Control

There was no change in our internal control over financial reporting during the quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Board of Directors currently consists of 10 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
Barry B. Bondroff, CPA, age 60, is an officer and director with Gorfine, Schiller & Gardyn, PA, a full-service certified public accounting firm offering a wide range of accounting and consulting services. Previously, he was a Senior Managing Director with SMART. Bondroff brings over 35 years of experience providing companies of all sizes and industries with practical and cost-effective accounting, assurance, tax, business, technology and financial advisory services. Prior to managing SMART, Bondroff was the Managing Director for Grabush, Newman & Co., P.A., which combined with SMART in May 2003. Bondroff began his career with Grabush Newman in 1970, and in 1976 became Officer and was promoted to Managing Director in 1982. He earned his Bachelor of Science degree in Accounting from the University of Baltimore. Additionally, Bondroff serves on the Board of Directors for the publicly traded First Mariner Bank of Maryland, a NASDAQ listed SEC registrant. He is active with First Mariner serving on the Executive Committee, Loan Committee, Audit Committee and as Chairman of the Compensation Committee. In addition to his professional affiliations, Bondroff served on the Executive Committee for Israel Bonds and was a Director of Cycle Across Maryland. He has served the National Jewish Medical and Research Center, the Jewish Center for Business Development and has assisted the Baltimore Symphony Orchestra in its fundraising efforts. In addition, Barry was a past President and Treasurer of the Edward A. Meyerberg Northwest Senior Center, and also served as a Member of the Board of Directors for the Levindale Hebrew Geriatric Center and Hospital. He currently serves as Treasurer for Special Olympics of Maryland, and as a Trustee for Stevenson University in Maryland.	2008
Joseph D. Calderone, age 60, is the chaplain and counselor at the Villanova University School of Law. He most recently served as the interim President at Merrimack College in North Andover, MA. 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 60, 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
George J. Lavin, Jr., Esq., age 80, is a senior partner at Lavin, O'Neil, Ricci, Ceprone & Disipio. Mr. Lavin is a 1951 graduate of Bucknell University. He attended the University of	2005

Pennsylvania School of Law, receiving an LL.B. in 1956, and then served as a Special Agent, Federal Bureau of Investigation, United States Department of Justice, until 1959. Mr. Lavin is one of the dominant product liability defense attorneys in the nation. He has had regional responsibilities in several automotive specialty areas, and has been called upon to try matters throughout the county on behalf of his clients. Mr. Lavin's present practice and specialty emphasizes his commitment to defending the automotive industry. Mr. Lavin is admitted to practice before the Supreme Court of Pennsylvania, the United States Court of Appeals for the Third Circuit and the United States District Courts for the Eastern and Middle Districts of Pennsylvania. He is a member of the Faculty Advisory Board of the Academy of Advocacy, the Association of Defense Counsel, The Defense Research Institute, The American Board of Trial Advocates, and the Temple University Law School faculty. He has also been elected a fellow of the American College of Trial Lawyers. On March 1, 1994, Mr.Lavin assumed the title of Counsel to The Firm.

Bradley T. MacDonald, age 61, is the Executive 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 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 was appointed and served on the Defense Advisory Board for Employer Support of the Guard and Reserve (ESGR.) He also served on the Board of Directors of the Baltimore County Chamber of Commerce. Currently, Mr. MacDonald serves on the Board of Directors of Stevenson University in Maryland, and the Institute of Notre Dame High School, Baltimore, Maryland. He is also the Vice-Chairman of the Board of Directors of the Marine Corps Reserve Toys for Tots Foundation. 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. 1996

Michael C. MacDonald, age 56, is senior vice president, operational effectiveness for Xerox Corporation. He leads a corporate initiative to review the company's core functions including marketing, learning, human resources and other key areas to ensure the Company is maximizing the effectiveness of its resources and delivering a solid return on investment. Previously, he was president of global accounts and marketing operations for Xerox Corporation responsible for corporate marketing, xerox.com, advertising, brand, public relations, and corporate communications. He was named to this position in October 2004 and was appointed a corporate senior vice president in July 2000. MacDonald is on the board of directors of PAETEC and the Jimmy V Foundation. 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 64, 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 2006 congressionally chartered association devoted to national defense. In addition to Medifast, he is a member of the Board of Directors of Rivada Networks.

Michael S. McDevitt, age 30, 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. In March of 2007, Mr. McDevitt was promoted to Chief Executive Officer of the Company. Prior to joining Medifast, Mr. McDevitt worked as a Financial Analyst for the Blackstone Group, an investment advisory firm based in New York, NY.	2007

Jeannette M. Mills, age 42, currently serving as senior vice president with the Baltimore Gas and Electric Company, a subsidiary of Constellation Energy. A Baltimore, Md. native, Mills earned her Bachelor of Science in Electrical Engineering from Virginia Polytechnic Institute (Virginia Tech) and she currently serves on the Advisory Board of the Bradley Department of Electrical and Computer Engineering. In 2006, Mills earned her Masters of Business Administration from Loyola College. Ms. Mills also works in the community includes serving as Chair of the Board of Directors for Voices for Children, Howard County's Court Appointed Special Advocate Program. Additionally, she serves on the Board of the Creative Alliance, a Program that builds communities by bringing together artists and audiences from diverse backgrounds to experience spectacular arts programs and engage in the creative process.	2008
Donald F. Reilly, OSA, age 61, 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, Staff at Villanova University, Personnel Director of the Augustinian Province of St. Thomas of Villanova, Provincial Counselor, Co-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. He also serves on the Board of Trustees of Merrimack College, MA, St. Augustine Prep, NJ, and Malvern Prep, PA. 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, Peru, and South Africa.	1998
Margaret MacDonald–Sheetz, age 31, 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. In March 2007, she was promoted to President and Chief Operating Officer of Medifast Inc.	2008
Mary T. Travis, age 57, is currently employed with Eagle National Bank 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 40 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. Mrs. Travis is currently on Board of Governors of the Mortgage Bankers Association of Greater Philadelphia.	2002

ADDITIONAL INFORMATION ABOUT THE BOARD OF DIRECTORS AND COMMITTEES

Director Independence

The Board consists of 12 members of which 9 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: Barry B. Bondroff, Joseph D. Calderone, Charles P. Connolly, George J. Lavin, Jr. Esq., Dennis M. McCarthy, Jeannette M. Mills, Donald F. Reilly, and Mary T. Travis.

Board Meetings

For the fiscal year ended December 31, 2008 (“Fiscal 2008”), the Board of Directors held five 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. Twelve directors attended the 2008 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 Barry B. Bondroff, Charles P. Connolly, George J. Lavin, and Mary T. 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

- 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 2008, the audit committee met four times.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee consists of Joseph D. Calderone, Jeannette M. Mills, Donald F. Reilly, and George J. 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 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 2008, the nominating and corporate governance committee met four times.

Compensation Committee

The compensation committee currently consists of Joseph D. Calderone, Dennis M. McCarthy, Esq. Jeannette M. Mills, and Mary T. 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 2008, the compensation committee met four times.

Executive Committee

Messrs. Bradley T. MacDonald, Michael C. MacDonald, Michael S. McDevitt, Dennis M. McCarthy, Esq., and Jeannette M. Mills 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 two meetings during fiscal 2008.

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 2008, 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 2008.

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, CFO, and President during Fiscal 2008, as well as the other individuals included in the Summary Compensation Table on page 35, 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 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 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 intend to issue stock options as part of compensation in 2009 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.

2008 Summary Compensation Table

The following table sets forth the annual and long-term compensation for the fiscal year ended December 31, 2008, 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 Chairman of the Board	2008	$ 225,000	107,000	-	-	$ 100,000	$ 6,700	$ 438,700
Michael S. McDevitt Chief Executive and CFO	2008	135,000	450,000	-	75,000		2,700	662,700
Leo V. Williams Executive Vice President	2008	132,500	-	-	25,000		2,900	160,400
Margaret MacDonald - Sheetz Chief Operating Officer, President	2008	100,000	372,000	-	50,000		3,000	525,000
Brendan N. Connors VP of Finance	2008	99,000	101,000	-	20,000		3,000	223,000

(1) Amounts are calculated based on provisions of SFAS, No 123R, "Share Based Payments." See note 2 of the consolidated financial statements of the Company's Annual

Report on Form 10-K for the year ended December 31, 2008 regarding assumptions underlying valuation of equity awards.

(2) Bonus amounts determined as more specifically discussed above under “—Compensation Discussion and Analysis”

(3) The amounts represent the Company’s matching contributions under the 401(K) plan.

2008 Grants of Plan-Based Awards

On January 25, 2008, the Board of Directors modified Bradley T. MacDonald’s compensation package for his role in the succession plan and business development initiatives as outlined in the December 31, 2006 10-K. The Board cancelled the 100,000 options granted to Mr. MacDonald on February 8, 2006 and replaced them with a restricted stock grant of 42,000 shares. The restricted shares will vest over a period of 3 years beginning on January 25, 2009.

The Medifast Board of Directors on July 24, 2008 approved restricted common stock grants to the Named Executives with a 5 year vesting period, beginning on the grant date. Named Executive Officers were granted 425,000 shares of restricted common stock to retain their services over the next five years, reward their efforts in the participation of the successful succession and transition of the company operations to the new senior management team, and incentivize continued sales and profit growth in accordance with targets set by the Board of Directors.

The Medifast Board of Directors on November 24, 2008 approved restricted common stock grants to key executives as a 2008 performance bonus for exceeding internal sales and profit forecasts. Key executives were granted 150,000 shares of restricted common stock over a five year vesting period, beginning on January 1, 2009.