MEDIFAST INC
Form 10-Q
May 08, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from to

Commission file number 0-23016

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

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

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

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

Yes x No ¨

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

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

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

Yes ¨ No x

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

Class	Outstanding at May 8, 2009
Common stock, $.001 par value per share	14,689,960 shares

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

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,297,000	$ 1,841,000
Accounts receivable-net of allowance for doubtful accounts of $100,000	574,000	448,000
Inventory	12,363,000	13,856,000
Investment securities	1,129,000	1,099,000
Deferred compensation	451,000	531,000
Prepaid expenses and other current assets	1,925,000	2,034,000
Prepaid income tax	1,091,000	1,131,000
Note receivable - current	180,000	180,000
Deferred tax asset	100,000	100,000
Total Current Assets	24,110,000	21,220,000
Property, plant and equipment - net	21,626,000	21,709,000
Trademarks and intangibles - net	5,122,000	5,547,000
Deferred tax asset, net of current portion	1,241,000	1,131,000
Note receivable, net of current portion	1,046,000	1,080,000
Other assets	352,000	350,000
TOTAL ASSETS	$ 53,497,000	$ 51,037,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 4,832,000	$ 5,130,000
Line of credit	3,179,000	3,164,000
Current maturities of long-term debt	257,000	257,000
Total Current liabilities	8,268,000	8,551,000
Long-term debt, net of current liabilities	4,249,000	4,313,000
Total liabilities	12,517,000	12,864,000
Stockholders' equity:		
Common stock; par value $.001 per share; 20,000,000 authorized; 14,689,960 and 14,585,960 shares issued and outstanding, respectively	15,000	15,000
Additional paid-in capital	31,227,000	30,787,000
Accumulated other comprehensive (loss)	(447,000)	(389,000)
Retained earnings	17,738,000	15,253,000
	48,533,000	45,666,000
Less: cost of 301,092 and 272,192 shares of common stock in treasury, respectively	(2,058,000)	(1,956,000)
Less: unearned compensation	(5,495,000)	(5,537,000)
Total Stockholders' Equity	40,980,000	38,173,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 53,497,000	$ 51,037,000

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenue	$ 33,680,000	$ 25,169,000
Cost of sales	8,054,000	6,100,000
Gross Profit	25,626,000	19,069,000
Selling, general, and administration	21,610,000	17,007,000
Income from operations	4,016,000	2,062,000
Other income/(expense)		
Interest expense, net	(5,000)	(65,000)
Other income/(expense)	(35,000)	36,000
	(40,000)	(29,000)
Income before provision for income taxes	3,976,000	2,033,000
Provision for income tax (expense)	(1,491,000)	(668,000)
Net income	$ 2,485,000	$ 1,365,000
Basic earnings per share	$ 0.19	$ 0.10
Diluted earnings per share	$ 0.17	$ 0.10
Weighted average shares outstanding -		
Basic	13,284,431	13,101,157
Diluted	14,494,898	13,799,293

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income	$ 2,485,000	$ 1,365,000
Adjustments to reconcile net income to net cash provided by operating activities from		
continuing operations:		
Depreciation and amortization	1,229,000	1,079,000
Realized (gain) loss on investment securities	(21,000)	36,000
Common stock issued for services	52,000	35,000
Stock options cancelled during period	-	(77,000)
Vesting of unearned compensation	429,000	148,000
Net change in other comprehensive (loss)	(58,000)	(167,000)
Deferred income taxes	(110,000)	18,000
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable	(126,000)	18,000
Decrease (Increase) in inventory	1,493,000	(792,000)
Decrease (Increase) in prepaid expenses & other current assets	110,000	(518,000)
Decrease in deferred compensation	80,000	91,000
Decrease (Increase) in prepaid taxes	40,000	(143,000)
(Increase) in other assets	(2,000)	(202,000)
(Decrease) Increase in accounts payable and accrued expenses	(297,000)	1,103,000
(Decrease) in income taxes payable	-	(592,000)
Net cash provided by operating activities	5,304,000	1,402,000
Cash Flow from Investing Activities:		
(Purchase) of investment securities, net	(9,000)	(4,000)
(Purchase) of property and equipment	(722,000)	(2,735,000)
(Purchase) of intangible assets	-	(2,000)
Net cash (used in) investing activities	(731,000)	(2,741,000)
Cash Flow from Financing Activities:		
Issuance of common stock, options and warrants	-	12,000
(Repayment) of long-term debt, net	(64,000)	(71,000)
Increase in line of credit	15,000	577,000
Decrease in note receivable	34,000	33,000
(Purchase) of treasury stock	(102,000)	-
Net cash provided by (used in) financing activities	(117,000)	551,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,456,000	(788,000)
Cash and cash equivalents - beginning of the period	1,841,000	2,195,000

Cash and cash equivalents - end of period	$	6,297,000	$	1,407,000
Supplemental disclosure of cash flow information:				
Interest paid	$	37,000	$	103,000
Income taxes	$	985,000	$	1,489,000
Supplemental disclosure of non cash activity:				
Common stock issued to Executives and Directors over 2-6 year vesting periods	$	429,000	$	195,000
Options cancelled during period	$	-	$	(77,000)
Common stock issued for services	$	52,000	$	35,000

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

General

1. Basis of Presentation

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

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

2. Presentation of Financial Statements

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

3. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) changes how an entity accounts for the acquisition of a business. While it retains the requirement to account for all business combinations using the acquisition method, the new rule will apply to a wider range of transactions or events and requires, in general, acquisition-date fair value measurement of identifiable assets acquired, liabilities assumed and non-controlling ownership interests held in the acquire, among other items. The Company is beginning to review the provisions of SFAS No. 141(R), which applies prospectively to business combinations with an acquisition date on or after the beginning of its 2009 fiscal year. The adoption of this standard did not have any material impact on condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements: an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 replaces the term minority interests with the newly-defined term of non-controlling interests and establishes this line item as an element of stockholders' equity, separate from the parent's equity. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. The adoption of this standard did not have any material impact on condensed consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position ("FSP") Emerging Issues Task Force ("EITF") No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." Under the FSP, unvested share-based payment awards that contain rights to receive non forfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008 and for interim periods within those years. The adoption of this standard did not have any material impact on condensed consolidated financial statements.

In November 2008, the FASB ratified EITF No. 08-6 “Equity Method Investment Accounting Considerations” which clarifies how to account for certain transactions involving equity method investments. The initial measurement, decreases in value and changes in the level of ownership of the equity method investment are addressed. EITF No. 08-6 is effective for the Company beginning on January 1, 2009, consistent with the effective dates of Statement 141R and Statement 160. EITF No. 08-6 will be applied prospectively. The adoption of EITF No. 08-6 did not have a material impact on the Company’s condensed consolidated financial position and results of operations.

4. Revenue Recognition

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

5. Inventories

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

6. Goodwill and Other Intangible Assets

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

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

	As of March 31, 2009		As of December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	$ 8,332,000	$ 5,014,000	$ 8,332,000	$ 4,649,000
Trademarks, patents, and copyrights				
finite life	1,640,000	745,000	1,640,000	685,000
infinite life	909,000	-	909,000	-
Total	$ 10,881,000	$ 5,759,000	$ 10,881,000	$ 5,334,000

Amortization expense for the three months ended March 31, 2009 and 2008 was as follows:

	2009	2008
Customer lists	$ 365,000	$ 402,000
Trademarks and patents	60,000	59,000
Total Trademarks and Intangibles	$ 425,000	$ 461,000

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

7. Fixed Assets

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

8. Note Receivable

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

9. Income Per Common Share

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

10. Estimates

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

11. Deferred Compensation Plans

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

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

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

12. Fair Value Measurements

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

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

The following table represents the fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2009.

Fair Value Measurements on a Recurring Basis as of March 31, 2009

Assets	Level I	Level II	Level III	Total
Investment securities	$ 1,129,000	-	-	$ 1,129,000
Cash equivalents	6,300,000	-	-	6,300,000
Total Assets	$ 7,429,000	$ -	$ -	$ 7,429,000
Liabilities	-	-	-	-
Total Liabilities	$ -	$ -	$ -	$ -

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

13. Share Based Payments

Stock-Based Compensation

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

Unearned compensation represents shares issued to executives and Board members that will be vested over a 2-6 year period. These shares will be amortized over the vesting period in accordance with FASB 123(R). The expense related to the vesting of unearned compensation was $429,000 and $148,000 at March 31, 2009 and March 31, 2008, respectively. There was no expense related to vesting of options under FASB 123R at March 31, 2009 and 2008.

The following summarizes the stock option activity for the Three Months ended March 31, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)
Outstanding, December 31, 2008	143,334	3.00	
Options granted			
Options reinstated			
Options exercised			
Options forfeited or expired			
Outstanding March 31, 2009	143,334	3.00	1.08
Options exercisable, March 31, 2009	143,334	3.00	1.08
Options available for grant at March 31, 2009	1,079,166		

14. Reclassifications

Certain amounts for the quarter ended March 31, 2008 have been reclassified to conform to the presentation of the March 31, 2009 amounts. The reclassifications have no effect on net income for the quarters ended March 31, 2009 and 2008.

15. Business Segments

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

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

The following tables present segment information for the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31, 2009			
	Medifast	All Other	Eliminations	Consolidated
Revenues, net	$ 30,734,000	$ 2,946,000		$ 33,680,000
Cost of Sales	7,369,000	685,000		8,054,000
Other Selling, General and Adminstrative Expenses	17,745,000	2,671,000		20,416,000
Depreciation and Amortization	990,000	239,000		1,229,000
Interest (net)	-	5,000		5,000
Provision for income taxes	1,491,000	-		1,491,000
Net income (loss)	$ 3,139,000	$ (654,000)		$ 2,485,000
Segment Assets	$ 35,575,000	$ 17,922,000		$ 53,497,000

	Three Months Ended March 31, 2008			
	Medifast	All Other	Eliminations	Consolidated
Revenues, net	$ 23,480,000	$ 1,689,000		$ 25,169,000
Cost of Sales	5,727,000	373,000		6,100,000
Other Selling, General and Adminstrative Expenses	14,246,000	1,646,000		15,892,000
Depreciation and Amortization	842,000	237,000		1,079,000
Interest (net)	10,000	55,000		65,000
Provision for income taxes	668,000	-		668,000
Net income (loss)	$ 1,987,000	$ (622,000)		$ 1,365,000
Segment Assets	$ 27,083,000	$ 18,973,000		$ 46,056,000

Management Discussion and Analysis of
Financial Condition and Results of Operations

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

Critical Accounting Policies and Estimates

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

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

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

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

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

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

General

Three Months Ended March 31, 2009 and March 31, 2008

Revenue: Revenue increased to $33.7 million in the first quarter of 2009 compared to $25.2 million in the first quarter of 2008, an increase of $8.5 million or 34%. The Take Shape for Life sales channel accounted for 56% of total revenue, direct marketing channel accounted for 33%, brick and mortar clinics 9%, and doctors 2%. Take Shape for Life sales, which are fueled by increased customer product sales as a result of an increase in active health coaches increased by 92% compared to the first quarter of 2008. As compared to the first quarter of 2008, the direct marketing sales channel, which is fueled primarily by consumer advertising, decreased revenues by approximately 13% year-over year, however, the advertising dollars spent were 17% less than the first quarter of 2008 as the Company continues to focus on more effective advertising spend. The Medifast Weight Control Centers increased sales by 72% due to the opening of new corporate and franchise locations.

Take Shape for Life revenue increased 92% to $18.9 million compared with $9.8 million in the comparable quarter of 2008. Growth in revenues for the segment were driven by increased customer product sales as a result of an increase in active health coaches. The number of active health coaches during the first quarter increased to approximately 4,000 compared with 2,200 during the period a year ago, an increase of 82% and up from 3,400 at the close of 2008. We continue to see the benefits of a physician-lead network of coaches that are able to support their clients in their weight-loss efforts. In today's environment where trust and personal recommendations are becoming a more important component in consumer purchasing decisions, the Take Shape for Life model of one-on-one communication continues to excel. Take Shape for Life customers who have utilized the Medifast products and programs and successfully have addressed their body weight and health issues are increasingly choosing to become active health coaches. Becoming a health coach is a business opportunity that has a low cost of start-up and requires no holding of inventory as all orders are shipped to the end consumer. In the current economic environment, many people are looking for supplemental income to assist in paying the car payment or mortgage, and becoming a health coach allows for supplemental income in the form of a commission compensation on product sales and supporting the customer needs by providing education on the program and support to customers ordering through Take Shape for Life, and more importantly the ability to help others regain their health through the use of clinically proven Medifast products.

The Medifast Weight Control Centers, which represent approximately 9% of the Company's overall revenues, are currently operating in twenty one locations in Dallas, Houston, and Orlando. In the first quarter of 2009, the Company experienced revenue growth of 72% versus the same time period last year. The average monthly sales per clinic increased to $40,000 in the first quarter of 2009 compared to $39,000 a year ago. In the expanding Dallas, TX market, the average monthly revenue per clinic is approximately $50,000. In the second and third quarter of 2009, the Company plans on opening four to five additional corporately owned clinics in the Austin, TX market. The Company's Medifast Weight Control Center Franchise model has been expanding and now has ten centers in operation.

Overall, selling, general and administrative expenses increased by $4.6 million as compared to the first quarter of 2008. As a percentage of sales, selling, general and administrative expenses decreased to 64.2% versus 67.6% in the first quarter of 2008, which lead to a 70% increase in diluted earnings per share in the first quarter of 2009 versus prior year. Take Shape for Life commission expense, which is completely variable based upon revenue, increased by approximately $3,800,000 as the Company showed sales growth of 92% as compared to the first quarter of 2008. Salaries and benefits increased by approximately $700,000 in the first quarter of 2009 as compared to last year. The increase includes the hiring of additional expertise in critical areas such as Take Shape for Life and the Medifast Weight Control Centers in the second half of 2008 which have greatly impacted revenue growth in 2009. In addition, the opening of eight new corporately owned clinics in the Houston, TX market and two in the Dallas, TX market also required the hiring of additional center managers and support staff. Advertising expense for the first quarter of 2009 was approximately $4.3 million compared to approximately $5.2 million for the same period last year, a decrease of $900,000 or 17%. Communication expense, decreased by $100,000 as the outsourced Take Shape for Life call center was brought in-house early in the second quarter of 2008. Other expenses increased by $500,000 which included items such as depreciation, amortization, credit card processing fees, charitable contributions, and property taxes. Operating expenses increased by $250,000 which primarily resulted from additional printing expense for our direct to consumer postcard mailings as well as maintenance, repairs, and supplies for our manufacturing and distribution facilities. Office expense increased by $100,000 and stock compensation expense increased by $282,000 as additional restricted shares were issued to key executives and Board members in the third and fourth quarters of 2008 that will be vesting over a five year term.

Costs and Expenses: Cost of revenue increased $2 million to $8.1 million in the first quarter of 2009 from $6.1 million in the first quarter of 2008. As a percentage of sales, gross margin increased to 76.1% from 75.8% in the first quarter of 2008. The margin improved slightly due to the addition of efficient new machinery and process improvements achieved in our vertically integrated business model.

Income taxes: In the first quarter of 2009, the Company recorded $1,491,000 in income tax expense, which represents an annual effective rate of 37.5%. The tax rate increased due to an increase in the Maryland state income tax rate as well as timing differences on amortization expense on our intangible assets between book and tax financials that increased our tax expense in 2009. In the first quarter of 2008, we recorded income tax expense of $668,000 which reflected an estimated annual effective tax rate of 32.9%. The Company anticipates a tax rate of approximately 36-38% in 2009.

Net income: Net income was approximately $2.5 million in the first quarter of 2009 as compared to approximately $1.4 million in the first quarter of 2008, an increase of 82%. Pre-tax profit as a percent of sales increased to 11.8% in the first quarter of 2009 as compared to 8.1% in 2008. The improved profitability in the first quarter of 2009 is due to sales growth in the Take Shape for Life division and Medifast Weight Control Centers as well as improved advertising effectiveness in the Medifast Direct Marketing sales channel, gross margin improvement as well as leveraging the fixed costs associated with our vertically-integrated support structure.

SEGMENT RESULTS OF OPERATIONS

Net Sales by Segment as of March 31,

	2009		2008	
Segments	Sales	% of Total	Sales	% of Total
Medifast	30,734,000	91%	23,480,000	93%
All Other	2,946,000	9%	1,689,000	7%
Total Sales	33,680,000	100%	25,169,000	100%

Three Months Ended March 31, 2009 and March 31, 2008

Medifast Segment: The Medifast reporting segment consists of the sales of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the "Condensed Consolidated Results of Operations" management discussion for the three months ended March 31, 2009 and 2008 above.

All Other Segment: The All Other reporting segment consists of the sales of Hi-Energy, Medifast Weight Control Centers and Medifast Weight Control Franchise Centers. Sales increased by $1,257,000 year-over year for the three month period ended March 31, 2009. Sales increased in the Hi-Energy, Medifast Weight Control Centers, and Franchise Centers due to the opening of ten new corporate centers in 2008 and new franchise centers at the end of 2008 and first quarter of 2009. In addition, the Dallas market continues to mature with the average clinic generating $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 operators to manage the clinics, and improved efficiencies in operation of the clinics. The Company now has twenty one corporately owned clinics, compared to ten clinics in operation at the end of the first quarter of 2008. The Company also has ten franchisee centers in operation.

Net Profit by Segment for the Three Months Ended March 31,

	2009		2008	
Segments	Profit	% of Total	Profit	% of Total
Medifast	$ 3,139,000	126%	$ 1,987,000	146%
All Other	(654,000)	-26%	(622,000)	-46%
Total Net Profit	$ 2,485,000	100%	$ 1,365,000	100%

Three Months Ended March 31, 2009 and March 31, 2008

Medifast Segment: The Medifast reporting segment consists of the profits of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the "Condensed Consolidated Results of Operations" management discussion for the three months ended March 31, 2009 and 2008 above. See footnote 15, “Business Segments” for a detailed breakout of expenses.

All Other Segment: The All Other reporting segment consists of the profit or loss of Hi-Energy and Medifast Weight Control Centers, Medifast Weight Control Franchise Centers, and corporate expenses related to the parent company operations. Year-over-year, the loss in the All Other segment increased by $32,000. The Hi-Energy, Medifast Weight Control Centers, and Franchise Centers showed an increase in net profitability year-over-year of $219,000. The increase in profitability was due to opening of ten new corporately owned centers in 2008 and new franchise centers at the end of 2008 and early 2009. The increase in the total number of corporate clinics to twenty one and ten operating franchise centers led to additional sales and profitability. Medifast Corporate expenses increased by $251,000 year-over-year. Corporate expenses include items such as auditors' fees, attorney's fees and corporate governance related to NYSE, Sarbanes Oxley, and SEC regulations. See footnote 15, "Business Segments" for a detailed breakout of expenses.

Seasonality

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

Inflation

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

Item 5. Other Information

Litigation:

There is no pending or threatened litigation.

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

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

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

Counsel forwarded 3 cease and desist demands by letter to Barry Minkow , a convicted felon, and FDI, of which Minkow/FDI confirmed receiving two. In addition, the Company has filed formal complaints with the NYSE, SEC, and ATTORNEY GENERAL OF MARYLAND to this time. Management as directed by the Board continues to monitor the situation and will continue to take appropriate action as it deems necessary.

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

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

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

Evaluation of Disclosure Controls and Procedures:

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

Changes in Internal Control over Financial Reporting:

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

SIGNATURES

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

Medifast, Inc.

BY: /S/ MICHAEL S. MCDEVITT — May 8, 2009
Michael S. McDevitt
Chief Executive Officer and Chief Financial Officer
(principal executive officer and principal financial officer)

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Index to Exhibits

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