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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended December 31, 2006

Commission File No. 000-23016

MEDIFAST, INC.

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

Phone (410) 581-8042

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

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

COMMON STOCK, PAR VALUE $.001 PER SHARE

New York Stock Exchange

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

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

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

Explanatory Note

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

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

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

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

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

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

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

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PART I

ITEM 1. BUSINESS.

SUMMARY

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

MARKETS

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

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

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

Distribution Channels

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

Take Shape for Life™ - Take Shape for Life is a physician led network of independent health coaches who are trained to provide coaching and support to client on Medifast programs. Health coaches are conduits to give clients the strategies and skills to successfully reach a healthy weight and then provide a road map to empower the individual to

take control of their health. Take Shape for Life offers the exclusive BeSlim™ philosophy, which encourages long-term weight maintenance. Take Shape for Life also moves beyond the scope of weight loss to show customers how to achieve optimal health through the balance of body, mind, and finances. Take Shape for Life uses the high quality, medically validated products of Medifast as the platform to launch an integrity based lifelong health optimization program.

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

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

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

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

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

THE MEDIFAST® BRAND

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

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

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

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

Clinical Research Overview

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

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

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

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

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

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

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

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

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

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

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

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

The 18-month study, (6-month weight loss phase, 12-month maintenance phase) examined a joint parent-child dieting approach, as opposed to an individually based approach, to improve weight loss outcomes. It compares diet using Medifast meal replacements to a non-supplemented Food Guide pyramid based diet. Comparative points include, overall weight loss, compliance, palatability, dietary quality and dietary satisfaction. The study also examines whether children who lose weight-using Medifast meal replacements as an adjunct to a Food Guide-pyramid based diet

achieve health benefits compared to baseline values and are these health benefits greater than those obtained following the reference diet.

The results of this study will be released in 2007.

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

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

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

COMPETITION

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

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

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

PRODUCTS

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

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

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

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

NEW PRODUCTS

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

MARKETING

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

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

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

SALES

The Company’s Sales division handles three primary areas:

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

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

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

MANUFACTURING

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

will significantly improve the company's production capability, while also improving its overall efficiencies.

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

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

GOVERNMENTAL REGULATION HISTORY

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

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

PRODUCT LIABILITY AND INSURANCE

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

EMPLOYEES

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

INFORMATION SYSTEMS INFRASTRUCTURE

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

AVAILABLE INFORMATION

All periodic and current reports, registration statements, code of conduct, code of ethics and other material that the Company is required to file with the Securities and Exchange Commission ("SEC"), including the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 (the "1934 Act Reports"). These

materials are available free of charge through the Company's investor relations page at www.medifastdiet.com . Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC. The Company's Internet web site and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

EXECUTIVE OFFICERS OF THE COMPANY

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

Bradley T. MacDonald

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

Michael S. McDevitt

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

Leo Williams

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

Margaret MacDonald, MBA

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

Brendan N. Connors, CPA

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

ITEM 1A. RISK FACTORS

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

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

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

We may be subject to health related claims from our customers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Business is subject to regulatory and legislative restrictions

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. DESCRIPTION OF PROPERTY

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

Not applicable

PART II

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

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

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

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

FORWARD LOOKING STATEMENTS

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

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. Our significant accounting policies are described in Note 2 of the consolidated financial statements.

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

preparing our consolidated financial statements. These critical accounting estimates have been discussed with our audit committee.

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

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS
2006 COMPARISON WITH 2005

OPERATING

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

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

Due to the significant growth in the first half of 2006, Medifast, Inc. began exploring third party over-sourcing capabilities in the call center. The Company began using an outsourced call center for overflow call volume in late April. The outsourced call center allowed the company to prepare in the fourth quarter of 2006 for anticipated sales

growth in the first quarter of 2007 so that a shortage of call center representatives would not be experienced as it was in the first quarter of 2006. The Company is currently exploring bringing all call center functions in-house. Capital expenditure for a new phone system would be necessary, however, the return on investment would be under a year. The Company has also invested in increasing production capacity with the purchase of two additional manufacturing lines and a larger capacity blender. The lines will significantly improve the Company's production capability, while also improving its overall efficiencies.

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

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

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

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

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

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

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

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

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

SEGMENT RESULTS OF OPERATIONS

Net Sales by Segment as of December 31,

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

2006 vs. 2005

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

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

2005 vs. 2004

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

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

Net Profit by Segment as of December 31,

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

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

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2006 vs. 2005

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

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

2005 vs. 2004

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

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

Contractual Obligations and Commercial Commitments

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

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

2005 COMPARISON WITH 2004

OPERATING

Revenue: Consolidated net sales for 2005 were $40,129,000 as compared to 2004 sales of $27,340,000, an increase of $12,789,000, or 47%. A major reason for the revenue increase for the Company is attributed to the continued success of direct sales to consumers as well as the expansion of the Take Shape for Life division. The increase in direct sales was attributed to an expanded direct marketing campaign via print, mail, web and television to drive customers to the

call center and website. Through the effectiveness of our online ads and improved web branding a higher percentage of customers ordered on the Company's website in 2005. In addition, the Company expanded it remarketing campaign to drive new customers to the call center and website. The Take Shape for Life division added a Take Shape for Life replicating website option for Health Advisors, an Internet distribution program for their customers, and provided health advisors with additional sponsoring tools to make training and recruiting easier. These have proven to be effective at generating revenues and recruiting Health Advisors into the Take Shape for Life Network. The increased training and recruitment initiatives in 2005 have resulted in the expansion of the sales network into additional locations as well as growth in current locations.

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

SEASONALITY

The Company's weight management products and programs have historically been subject to seasonality. Traditionally the holiday season in November/December of each year is considered poor for diet control products and services. January and February generally show increases in sales, as these months are considered the commencement of the “diet season.” The Company did not experience the same degree of seasonality in 2006. This is largely due to the increase in the consumer’s awareness of the overall health and nutritional benefits accompanied with the use of the Company’s product line. As consumers continue to increase their association of nutritional weight loss programs with overall health, seasonality will continue to decrease.

INFLATION

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS.

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

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

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

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

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

effective as of December 31, 2006 to a reasonable assurance level.

Changes in our Internal Control

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

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

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

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

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

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

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

Limitations on the Effectiveness of Controls

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

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

financial reporting as of December 31, 2006, as expressed herein, is different from that expressed in our previous report.

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

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

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

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

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

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

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

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

ADDITIONAL INFORMATION ABOUT THE BOARD OF DIRECTORS AND COMMITTEES

Director Independence

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

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

Board Meetings

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

Committees of the Board

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

Audit Committee

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

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

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

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

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

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

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

Ÿ

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

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

Nominating and Corporate Governance Committee

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

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

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

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

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

Compensation Committee

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

The principal duties of the compensation committee are as follows:

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

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

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

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

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

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

Ÿ modify or amend all equity plans.

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

Executive Committee

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

ADDITIONAL INFORMATION

Section 16(a) Beneficial Ownership Reporting Compliance

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

Codes of Business Conduct and Ethics and Corporate Governance Guidelines

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

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

ITEM 11. EXECUTIVE COMPENSATION.

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Program

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

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

Objectives of Compensation Program

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

Decision-Making; Role of Executive Officers in Compensation Decisions

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

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

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

Elements of Executive Compensation

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

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

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

Base Salary

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

Target Bonus

Cash bonuses principally reflect the Company’s financial performance and achievement of corporate objectives established by our Board prior to the fiscal year. The executive bonus plan is designed to reward our executives for the achievement of shorter-term financial goals, predominantly revenue growth and profitability, with cash flow and other

operating ratios also considered. The allocation of the bonus pool among the employees, including senior executives, is at the discretion of the Compensation Committee. The Chief Executive Officer, Chief Financial Officer and other senior executives discuss and jointly develop recommended bonus allocations among the staff within the various functional areas of the Company. In addition, the Chief Executive Officer prepares an allocation of bonus payments among the senior executive group. In consultation with the Chief Executive Officer, the Compensation Committee evaluates, adjusts and approves the amount and allocation of the bonus pool. In determining the cash bonus allocation among senior executives, the Compensation Committee and the Chief Executive Officer consider each executive's a) contribution to current and long-term corporate goals, and b) value in the labor market.

Equity Compensation

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

Equity Ownership by Executives

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

2006 Summary Compensation Table

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

Name and Pricipal Position	Year	Salary ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Bonus ($)(2)	Nonqualified Deferred Compensation Contributions ($)	All Other ($)(3)	Total ($)
Bradley T. MacDonald Chairman, Chief Executive Officer	2006	$ 225,000	-	-	-	$ 100,000	$ 6,600	$ 331,600
Michael S. McDevitt President, Chief Financial Officer	2006	99,000	289,000	-	27,500		3,800	419,300
Leo Williams Executive Vice President	2006	125,000	-	-	25,000		3,800	153,800
Margaret MacDonald Executive VP of Operations	2006	81,000	237,000	-	4,000		2,400	324,400
Brendan N. Connors VP of Finance	2006	80,000	47,000	-	4,000		1,400	132,400

(1) Amounts are calculated based on provisions of SFAS, No 123R, "Share Based Payments." See note 1 of the consolidated financial statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2006 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.

2006 Grants of Plan-Based Awards

There were no grants of plan-based awards to the Named Executive Officers for the fiscal year ended December 31, 2006.

Outstanding Equity Awards at Fiscal Year-End Table

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Un-Exercisable	Option Exercise Price ($)	Option Expiration Date	Number Shares or Units of Stock That Have Not Vested Vested(#) (1)	Market Value of Shares or Units of Stock that have not Vested ($) (2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other rights That Have Not Vested ($)
Bradley T. MacDonald Chief Executive Officer	-	100,000	$ 6.25	2/8/2011	-	-	-	-
Michael S. McDevitt President, Chief Financial Officer	100,000	-	2.87	3/31/2010	226,666	2,849,191	-	-
Leo Williams Executive Vice President	6,666	3,333	3.83	10/28/2010	-	-	-	-
Margaret MacDonald Executive VP of Operations	-	-	-	-	185,000	2,325,450	-	-
Brendan N. Connors VP of Finance	23,334		2.87	3/31/2010	37,000	465,090	-	-

Each option has a five year life and an exercise price per share equal to 100% of the estimated fair value of our common stock on the date of grant.

(1) The restricted stock grants vest over five and six years of service as described below under “Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards”

(2) The market value of shares of stock that have not vested is based on the closing price of our common stock on December 29, 2006, or $12.57 per share.

2006 Option Exercises and Stock Vested Table

The following table sets forth information regarding option exercises and stock vesting for the Named Executive Officers during 2006.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)(1)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)(2)**
Bradley T. MacDonald	26,667	$ 172,002	-	-
Chief Executive Officer	-	-	-	-
Michael S. McDevitt	7,696	149,553	15,000	81,000
President, Chief Financial Officer	-	-	33,333	208,331
Leo Williams	-	-	-	-
Executive Vice President				
Margaret MacDonald	16,667	126,669	15,000	81,000
Executive VP of Operations	-	-	25,000	156,250
Brendan N. Connors	10,176	183,473	3,000	16,200
VP of Finance	-	-	5,000	31,250

(1) Represents the difference between the exercise price and the fair market value of the common stock on the date of exercise, multiplied by the number of options exercised.
(2) Represents the number of restricted shares vested, and the number of shares vested multiplied by the fair market value of the common stock on the vesting date.

Equity Compensation Plan Information at Fiscal Year Ended December 31, 2006

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
Equity compensation plans approved by security holders	524,079 (1)	$ 6.12	928,421
Equity compensation plans not approved by security holders	-	-	-

(1) Consists of 321,579 shares of common stock issuable upon the exercise of outstanding options and 202,500 shares of common stock issuable upon the exercise of outstanding warrants.

2006 Non-Qualified Deferred Compensation Table

The following table sets forth all non-qualified deferred compensation of the Named Executive Officers for the fiscal year ended December 31, 2006.

	Executive Contributions in Last FY ($)	Company Contributions in Last FY ($)(1)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
Bradley T. MacDonald Chairman, Chief Executive Officer		$ 100,000	$ 80,120	-	$ 933,921
Michael S. McDevitt President, Chief Financial Officer	-	-	-	-	-
Leo Williams Executive Vice President	-	-	-	-	-
Margaret MacDonald Executive VP of Operations	-	-	-	-	-
Brendan N. Connors VP of Finance	-	-	-	-	-

(1) All amounts are reported in compensation on the “2006 Summary Compensation Table”

Deferred Compensation Plans

We maintain a non-qualified deferred compensation plan, effective September 10, 2003, 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, including the Named Executive Officers, 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 amount of compensation in any given fiscal year that is deferred by each Named Executive Officer is included in the Summary Compensation Table under the column headings “Salary” or “Non-Equity Incentive Plan Compensation”, as appropriate.

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.

In 2006, the Company made a $100,000 contribution to Bradley MacDonald’s deferred compensation plan as a performance bonus.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards

We have entered into employment agreements with certain Named Executive Officers, certain terms of which are summarized below.

Bradley T. MacDonald. Mr. MacDonald entered into a five year employment agreement effective February 8, 2006. Mr. MacDonald was granted 100,000 options over a five year vesting period beginning on February 8, 2007 in consideration for his five year commitment and to align his interest with the interests of long-term shareholders. Upon termination of Mr. MacDonald's employment by the Company without cause, or upon his resignation for good reason, he would be entitled to receive an amount equal to one and a half times the sum of his highest annualized salary payable in equal monthly installments 30 days after his termination of employment.

Michael S. McDevitt. Mr. McDevitt entered into a six year employment agreement effective February 8, 2006. Mr. McDevitt was granted 200,000 shares of Medifast, Inc. restricted common stock over a six year vesting period beginning on February 8, 2006 in consideration for his six year commitment and to align his interests with the interests of long-term shareholders. Upon termination of Mr. McDevitt's employment by the Company without cause, or upon his resignation for good reason, he would be entitled to receive an amount equal to one and a half times the sum of his highest annualized salary payable in equal monthly installments 30 days after his termination of employment.

Margaret MacDonald. Ms. MacDonald entered into a six year employment agreement effective February 8, 2006. Ms. MacDonald was granted 150,000 shares of Medifast, Inc. restricted common stock over a six year vesting period beginning on February 8, 2006 in consideration for his six year commitment and to align her interests with the interests of long-term shareholders. Upon termination of Ms. MacDonald's employment by the Company without cause, or upon her resignation for good reason, she would be entitled to receive an amount equal to one and a half times the sum of his highest annualized salary payable in equal monthly installments 30 days after her termination of employment.

Brendan N. Connors. Mr. Connors entered into a six year employment agreement effective February 8, 2006. Mr. Connors was granted 30,000 shares of Medifast, Inc. restricted common stock over a six year vesting period beginning on February 8, 2006 in consideration for his six year commitment and to align his interests with the interests of long-term shareholders. Upon termination of Mr. Connors' employment by the Company without cause, or upon his resignation for good reason, he would be entitled to receive an amount equal to one and a half times the sum of his highest annualized salary payable in equal monthly installments 30 days after his termination of employment.

Potential Payments Upon Termination or Change in Control

As of December 31, 2006, the Company had entered into employment agreements with each of the Named Executive Officers. As described in more detail above under "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards" The employment agreements with the Named Executive Officers generally provide for the payment of benefits if the executive's employment with the Company is terminated either by the Company without Cause or by the executive for Good Reason. The employment agreements with the Named Executive Officers do not provide for any additional payments or benefits upon a termination of employment by the Company for Cause, upon the executive's resignation other for Good Reason, as applicable, or upon the executive's death or disability. Upon termination by the Company without cause, or upon his or her resignation for good reason, all of the Named Executive officers are entitled to receive an amount equal to one and a half times his or her highest annualized base salary payable in equal monthly installments 30 days after his or her termination of employment. If a named executive had been terminated without cause of December 31, 2006 they would have received the following amounts:

Bradley T. MacDonald	$ 337,500
Michael S. McDevitt	$ 148,500
Margaret MacDonald	$ 121,500
Brendan N. Connors	$ 120,000

2006 Director Compensation

The table below summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended December 31, 2006.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)	Non-Equity Incentive Plan Compensation $)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All other Compensation $	Total ($)
Joseph D. Calderone, OSA	-	$ 9,375	-	-	-	-	$ 9,375
Charles P. Connolly	-	3,206	-	-	-	-	3,206
George Lavin, Jr., Esq.	-	9,375	-	-	-	-	9,375
Michael C. MacDonald	-	9,375	-	-	-	-	9,375
Dennis M. McCarthy	-	3,206	-	-	-	-	3,206
Michael J. McDevitt	-	9,375	-	-	-	-	9,375
Rev. Donald F. Reilly, OSA	-	12,500	-	-	-	-	12,500
Mary T. Travis	-	12,500	-	-	-	-	12,500

Employee Directors do not receive any additional compensation for their services as director.

Additional fees are paid to the Chairman of each committee which in fiscal 2006 amounted to an additional 500 shares of Medifast, Inc. stock granted to the Chairman of each committee.

(1) Amounts are calculated based on provisions of Statement of Financial Accounting Standards, or SFAS, No 123R, “Share Based Payments.” See note 1 of the consolidated financial statement of the Company’s Annual Report on Form 10-K for the year ended December 31, 2006 regarding assumptions underlying valuation of equity awards.

The table below summarizes the equity based awards held by the Company's non-employee directors as of December 31, 2006.

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Un-Exercisable	Option Exercise Price ($)	Option Expiration Date	Number Shares or Units of Stock That Have Not Vested Vested (#)	Market Value of Shares or Units of Stock that have not Vested ($)
Joseph D. Calderone	2,500	-	$ 4.80	4/4/2008	-	-
Charles P. Connolly	-	-	-		-	-
George Lavin	-	-	-		-	-
Michael C. MacDonald	2,500	-	4.80	4/4/2008	-	-
Dennis M. McCarthy	-	-	-		-	-
Michael J. McDevitt	2,500	-	4.80	4/4/2008	-	-
Rev. Donald F. Reilly, OSA	2,500	-	4.80	4/4/2008	-	-
Mary T. Travis	2,500	-	4.80	4/4/2008	-	-

Compensation Committee Report

We have reviewed and discussed with management certain Compensation Discussion and Analysis provisions to be included in this Form 10-K. Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the Compensation Discussion and Analysis referred to above be included on the Form 10-K/A for the year-ended December 31, 2006.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Donald F. Reilly, Chairman
George Lavin, Jr., Esq.
Dennis M. McCarthy, Esq.
Mary Travis

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table shows as of December 31, 2006, the amount and percentage of our outstanding common stock beneficially owned by each person who is known by us to beneficially own more than 5% of our outstanding common stock.

Name and Address of 5% Beneficial Owner	Shares Beneficially Owned (1)	Percent of Outstanding Common Stock
Bjurman, Barry & Associates (2) 10100 Santa Monica Blvd. Suite 1200 Los Angeles, CA 90067	739,538	5.4%

The following table shows as of April 24, 2007 the amount and percentage of our outstanding common stock beneficially owned (unless otherwise indicated) by each of our (i) directors and nominees for directors, (ii) Named Executive Officers and (iii) our directors, nominees for director and executive officers as a group.

Name of Beneficial Owner	Shares Beneficially Owned (1)(3))	Shares Acquirable Within 60 days (4)	Percent of Outstanding Common Stock (%)
Bradley T. MacDonald (5)	829,550	-	6.09%
Michael S. McDevitt	264,118	-	1.94%
Margaret MacDonald	139,900	-	1.03%
Donald F. Reilly	58,350	-	*
Michael C. MacDonald	56,119	-	*
Brendan Connors	51,509	-	*
Mary Travis	20,200	-	*
Michael J. McDevitt	17,400	-	*
Joseph D. Calderone, OSA	9,200	-	*
Leo Williams	8,436	-	*
Charles P. Connolly	6,575	-	*
George Lavin, Jr., Esq.	3,200	-	*
Dennis M. McCarthy, Esq.	1,575	-	*
All directors, nominees for directors and executive officers as a group (13 persons)	1,466,132		10.76%

* less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. Under those rules and for purposes of the table above (a) if a person has decision making power over either the voting or the disposition of any shares, that person is generally deemed to be a beneficial owner of those shares; (b) if two or more persons have decision making power over either the voting or the disposition of any shares, they will be deemed to share beneficial ownership of those shares, in which case the same shares will be included in share ownership totals for each of those persons; and (c) if a person held options to purchase shares that were exercisable on, or became exercisable

within 60 days of, April 24, 2007, that person will be deemed to be the beneficial owner of those shares and those shares (but not shares that are subject to options held by any other stockholder) will be deemed to be outstanding for purposes of computing the percentage of the outstanding shares that are beneficially owned by that person. Information supplied by officers and directors.

(2) This information is based on Schedule 13G filed with the SEC on December 27, 2006.

(3) The shares set forth as beneficially owned by our executive officers and directors do not include the following outstanding options because they are not exercisable within 60 days of April 24, 2007: Mr. Bradley T. MacDonald (80,000); and Mr. Leo Williams (3,333);

(4) Unless otherwise noted, reflects the number of shares that could be purchased by exercise of options available at April 24, 2007, or within 60 days thereafter under our stock option plans.

(5) The shares set forth as beneficially owned by Mr. Bradley T. MacDonald include 396,402 shares owned by his wife Shirley MacDonald, and 46,447 shares owned by the MacDonald Family Trust. His daughter, Margaret MacDonald, beneficially owns 139,900 shares which added to Bradley T. MacDonald’s 829,500 beneficially owned shares results in 969,450 shares owned by the MacDonald family.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As of December 31, 2006, there were no related party transactions.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees to Independent Registered Public Accountants for Fiscal 2005 and 2006

The following services were provided by Bagell, Josephs, Levine & Co during fiscal 2005 and 2006:

	2005	2006
Audit Fees(1)	$ 90,000	$ 179,000
Tax fees(2)	10,000	21,000
All other fees	-	-
Total	$ 100,000	$ 200,000

(1) Audit fees consist of fees for professional services rendered for the audit of the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K, including the audit of internal controls required by Section 404 of the Sarbanes-Oxley Act of 2002, and the review of financial statements included in the Company's Quarterly Reports on Form 10-Q, and for services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements.

(2) Tax fees were billed for tax compliance services

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent auditors.

Under the policy, pre-approval is generally provided for work associated with the following:

Ÿ registration statements under the Securities Act of 1933 (for example, comfort letters or consents);

Ÿ due diligence work for potential acquisitions or dispositions;

Ÿ attest services not required by statute or regulation;

Ÿ adoption of new accounting pronouncements or auditing and disclosure requirements and accounting or regulatory consultations;

Ÿ internal control reviews and assistance with internal control reporting requirements;

Ÿ review of information systems security and controls;

Ÿ

tax compliance, tax planning and related tax services, excluding any tax service prohibited by regulatory or other oversight authorities; expatriate and other individual tax services; and

Ÿ assistance and consultation on questions raised by regulatory agencies.

For each proposed service, the independent auditors are required to provide detailed back-up documentation at the time of approval to permit the Audit Committee to make a determination whether the provision of such services would impair the independent auditors' independence.

The Audit Committee has approved in advance certain permitted services whose scope is routine across business units, including statutory or other financial audit work for non-U.S. subsidiaries that is not required for the 1934 Act audits.

PART IV

ITEM 15. EXHIBITS AND FINACIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

See Index to the Consolidated Financial Statements on page 43 of this Annual Report

2. Financial Statement Schedules

None, as all information required in these schedules is included in the Notes to the Consolidated Financial Statements.

3. Exhibits

Reference is made to the Exhibit Index on page 43 of this Annual Report for a list of exhibits required by Item 601 of Registration S-K to be filed as part of this Annual Report.

MEDIFAST, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Medifast, Inc.

We have audited the accompanying consolidated balance sheets of Medifast, Inc. as of December 31, 2005 and 2006, and the related consolidated statements of operations, stockholders' equity and accumulated other comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Medifast, Inc. at December 31, 2005 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 16 to the financial statements, the accompanying consolidated financial statements have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Medifast Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2007, except for the effects of the material weakness described in the sixth paragraph of that report, as to which the date is September 6, 2007, expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of internal control over financial reporting

Bagell, Josephs, Levine & Company, LLC

Gibbsboro, New Jersey
March 15, 2007, except
for Note 16 as to which the
date is September 6, 2007

MEDIFAST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2006 and 2005

		(Restated) 2006		(Restated) 2005
ASSETS				
Current assets:				
Cash and cash equivalents	$	1,085,000	$	1,484,000
Accounts receivable-net of allowance for doubtful accounts of $100,000		448,000		984,000
Inventory		8,255,000		5,475,000
Investment securities		1,540,000		2,700,000
Deferred compensation		673,000		525,000
Prepaid expenses and other current assets		2,599,000		3,273,000
Note receivable - current		174,000		-
Current portion of deferred tax asset		90,000		-
Total current assets		**14,864,000**		**14,441,000**
Property, plant and equipment - net		14,020,000		9,535,000
Trademarks and intangibles - net		5,874,000		5,984,000
Deferred tax asset, net of current portion		517,000		100,000
Note receivable, net of current assets		1,355,000		-
Other assets		47,000		60,000
TOTAL ASSETS	**$**	**36,677,000**	**$**	**30,120,000**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	$	2,913,000	$	2,263,000
Income taxes payable		535,000		899,000
Line of credit		1,256,000		633,000
Current maturities of long-term debt		548,000		561,000
Deferred tax liability - current		-		90,000
Total current liabilities		**5,252,000**		**4,446,000**
Other liabilities and deferred credits				
Long-term debt, net of current portion		3,509,000		3,977,000
Total liabilities		**8,761,000**		**8,423,000**
Stockholders' Equity:				
Preferred stock, $.001 par value (1,500,000 authorized, no shares issued and outstanding) Common stock; par value $.001 per share; 20,000,000 shares authorized; 13,631,898 and 12,782,791 shares issued and outstanding		14,000		13,000
Additional paid-in capital		26,629,000		21,759,000
Accumulated other comprehensive income		334,000		282,000
Retained earnings		5,981,000		825,000
		32,958,000		**22,879,000**
Less: cost of 249,184 and 210,902 shares of common stock in treasury		(1,686,000)		(1,075,000)
Less: Unearned compensation		(3,356,000)		(107,000)

Total stockholders' equity		**27,916,000**		**21,697,000**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$**	**36,677,000**	**$**	**30,120,000**

The accompanying notes are an integral part of these consolidated financial statements

MEDIFAST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	(Restated)	(Restated)	
	2006	**2005**	**2004**
Revenue	$ 74,086,000	$ 40,129,000	$ 27,340,000
Cost of sales	(18,237,000)	(10,161,000)	(6,746,000)
Gross profit	**55,849,000**	**29,968,000**	**20,594,000**
Selling, general, and administration	(48,468,000)	(26,419,000)	(17,590,000)
Income from operations	**7,381,000**	**3,549,000**	**3,004,000**
Other income (expense):			
Interest expense	(369,000)	(317,000)	(245,000)
Interest income	175,000	158,000	154,000
Other income (expense)	276,000	15,000	(7,000)
	82,000	(144,000)	(98,000)
Income before provision for income taxes	**7,463,000**	**3,405,000**	**2,906,000**
Provision for income taxes	(2,307,000)	(1,002,000)	(1,159,000)
Net income	**5,156,000**	**2,403,000**	**1,747,000**
Less: Preferred stock dividend requirement	-	(291,000)	(18,000)
Net income attributable to common shareholders	**$ 5,156,000**	**$ 2,112,000**	**$ 1,729,000**
Basic earnings per share	$ 0.41	$ 0.17	$ 0.16
Diluted earnings per share	$ 0.38	$ 0.17	$ 0.14
Weighted average shares outstanding -			
Basic	12,699,066	12,258,734	10,832,360
Diluted	13,482,894	12,780,959	12,413,424

The accompanying notes are an integral part of these consolidated financial statements

MEDIFAST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2006, 2005, and 2004

	Series B Preferred Stock		Series C Preferred Stock		(Restated) Common Stock			
	Number of Shares	Stated Value Amount	Number of Shares	Stated Value Amount	Number of Shares	Par Value $0.001 Amount	Additional Paid-In Capital	Retained Earnings deficit)
Balance, December 31, 2003	403,734	404,000	267,000	267,000	10,482,609	10,000	20,120,000	(3,016,000)
Preferred converted to Common Stock	(103,120)	(103,000)	(67,000)	(67,000)	340,240		170,000	
Options exercised to Common Stock					47,221	1,000	34,000	
Warrants Converted to Common Stock					46,700		125,000	
Conversion of debt to equity					55,400		28,000	
Conversion of debt to equity out of Treasury							114,000	
Common stock issued to Consultants					15,500		93,000	
Shares issued out of Treasury							(135,000)	
Common Stock issued for Series “C” dividend					13,400		7,000	(7,000)
Dividend paid in stock								(11,000)
Net Income								1,747,000
Balance, December 31, 2004	300,614	301,000	200,000	200,000	11,001,070	11,000	20,556,000	(1,287,000)
Preferred converted to Common Stock	(300,614)	(301,000)	(200,000)	(200,000)	1,001,228	1,100	500,000	
Warrants Converted to Common Stock					2,000	-	2,000	
Options excercised to					138,335	100	190,000	

common stock							
Common Stock issued for Series “C” dividend				38,000	-	19,000	(19,000)
Dividend paid in stock							(11,000)
Common stock issued for Series “B” dividend				521,158	600	260,000	(261,000)
Common stock issued to Employees				81,000	100	271,000	
Treasury shares issued to employees					100	(39,000)	
Shares issued to officer with two year vesting period							
Vesting of unearned compensation							
Treasury shares repurchased							
Net income							2,403,000
Balance, December 31, 2005	0	$ 0	0	$ 0	12,782,791	$ 13,000	$ 21,759,000	$ 825,000
Warrants converted to common stock				142,810	200	762,000	
Common stock issued to Directors				10,750	100	69,000	
Common stock issued to consultants				2,500	100	17,000	
Dividend paid in stock							
Options excercised to common stock				128,047	100	240,000	
Options granted to CEO						383,000	
FASB 123R vesting						41,000	
Shares issued to executives with 5 & 6 year vesting period				565,000	600	3,374,000	

Treasury shares issued to employees						(100)	(16,000)	
Net income								5,156,000
Balance, December 31, 2006	0	$ 0	0	$ 0	13,631,898	$ 14,000	$ 26,629,000	$ 5,981,000

The accompanying notes are an integral part of these consolidated financial statements

MEDIFAST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) - (CONTINUED)

Years Ended December 31, 2006, 2005, and 2004

Consolidated Statement of Changes in Stockholders' Equity and Accumulated Other Comprehensive Income (Loss)

		Common Stock		
	Accumulated other comprehensive income (loss)	(Restated) Total	Treasury Stock	Unearned Compensation
Balance, December 31, 2003	(25,000)	17,760,000	(683,000)	-
Preferred converted to Common Stock				
Options exercised to Common Stock		35,000	(31,000)	
Warrants Converted to Common Stock		125,000	(123,000)	
Conversion of debt to equity		28,000		
Conversion of debt to equity out of Treasury		114,000	166,000	
Common stock issued to Consultants		93,000	135,000	
Shares issued out of Treasury		(135,000)	135,000	
Common Stock issued for Series "C" dividend				
Dividend paid in stock		(11,000)		
Net Income	(14,000)	1,733,000		
Balance, December 31, 2004	(39,000)	19,742,000	(536,000)	-
Preferred converted to Common Stock			(124,000)	
Warrants Converted to Common Stock		2,000		
Options excercised to common stock		190,000		
Common Stock issued for Series "C" dividend				
Dividend paid in stock		(11,000)		
Common stock issued for Series "B" dividend				
Common stock issued to Employees		271,000		
Treasury shares issued to employees		(39,000)	38,000	
Shares issued to officer with two year vesting period				(122,000)
Vesting of unearned compensation				15,000
Treasury shares repurchased			(453,000)	
Net income	321,000	3,048,000		

Balance, December 31, 2005	$ 282,000	$ 22,879,000	$ (1,075,000)	$ (107,000)
Warrants converted to common stock		763,000	(137,000)	
Common stock issued to Directors		69,000		
Common stock issued to consultants		17,000		
Dividend paid in stock				
Options excercised to common stock		241,000	(490,000)	
Options granted to CEO		383,000		(383,000)
FASB 123R vesting		41,000		
Shares issued to executives with 5 & 6 year vesting period		3,374,000		(3,374,000)
Vesting of unearned compensation				508,000
Treasury shares issued to employees		(16,000)	16,000	
Net income	52,000	5,207,000		
Balance, December 31, 2006	$ 334,000	$ 32,958,000	$ (1,686,000)	$ (3,356,000)

The accompanying notes are an integral part of these consolidated financial statements

MEDIFAST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
Years Ended December 31,

	(Restated) 2006	(Restated) 2005	2004
Cash flows from Operating Activities:			
Net income	$ 5,156,000	$ 2,403,000	$ 1,747,000
Adjustments to reconcile net income to net cash provided by operating activities from operations:			
Depreciation and amortization	2,271,000	2,266,000	1,210,000
Realized (gain) loss on investment securities	(79,000)	10,000	19,000
Loss on sale of Consumer Choice Systems	323,000	-	-
Common stock issued for services	86,000	150,000	93,000
Vesting of unearned compensation	509,000	15,000	-
Stock options vested during year	40,000	-	-
Excess tax benefits from share-based payment arrangements	16,000	-	-
Net change in other accumulated comprehensive income (loss)	52,000	321,000	(14,000)
Provision for bad debts	-	13,000	-
Deferred income taxes	(597,000)	100,000	486,000
Changes in Assets and Liabilities:			
Decrease (increase) in accounts receivable	379,000	65,000	(422,000)
(Increase) in inventory	(3,138,000)	(1,225,000)	(1,263,000)
(Increase) decrease in prepaid expenses and other current assets	675,000	(2,194,000)	(143,000)
(Increase) in deferred compensation	(148,000)	(204,000)	-
Decrease (increase) in other assets	13,000	10,000	(25,000)
Increase (decrease) in accounts payable and accrued expenses	651,000	1,323,000	(460,000)
Increase (decrease) in income taxes payable	(364,000)	160,000	674,000
Net cash provided by operating activities	5,845,000	3,213,000	1,902,000
Cash Flows from Investing Activities:			
Sale (purchase) of investment securities, net	1,237,000	(84,000)	1,338,000
Purchase of building	-	-	(566,000)
Purchase of property and equipment	(5,557,000)	(1,672,000)	(1,490,000)
Purchase of intangible assets	(2,427,000)	(276,000)	(2,792,000)
Net cash (used in) investing activities	(6,747,000)	(2,032,000)	(3,510,000)
Cash Flows from Financing Activities:			
Issuance of common stock, options and warrants	795,000	66,000	7,000
Increase in line of credit, net	623,000	561,000	314,000
Excess tax benefits from share-based payment arrangements	(14,000)	-	-
Purchase of treasury stock	(420,000)	(452,000)	-

Proceeds from long-term debt	-	-	475,000
Principal repayments of long-term debt	(481,000)	(473,000)	(1,089,000)
Dividends paid on preferred stock	-	(11,000)	(11,000)
Net cash provided by (used in) financing activities	503,000	(309,000)	(304,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(399,000)	872,000	(1,912,000)
Cash and cash equivalents - beginning of the year	1,484,000	612,000	2,524,000
Cash and cash equivalents - end of year	$ 1,085,000	$ 1,484,000	$ 612,000
Supplemental disclosure of cash flow information:			
Interest paid	$ 369,000	$ 317,000	$ 245,000
Income taxes	$ 3,403,000	$ 1,983,000	$ -
Supplemental disclosure of non cash activity:			
Common stock issued to executives over 6-year vesting period	$ 3,373,000	$ -	$ -
Common shares issued for options and warrants	$ 591,000	$ -	$ -
Options vested during period	$ 40,000	$ -	$ -
Conversion of preferred stock B and C to common stock	$ -	$ 501,000	$ 170,000
Common stock for services	$ 86,000	$ 150,000	$ 93,000
Conversion of debt to equity	$ -	$ -	$ 307,000
Preferred B and C Stock Dividends	$ -	$ 287,000	$ 7,000
Line of credit converted to long-term debt	$ -	$ 369,000	$ -
Common stock issued for compensation to be earned upon vesting	$ -	$ 122,000	$ -

The accompanying notes are an integral part of these consolidated financial statements.

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

	Years Ended December 31,		
	2006	2005	2004
Supplemental disclosure of non cash activity:			
Sale of Consumer Choice Systems			
Inventory	$ 358,000	$ -	$ -
Accounts Receivable	131,000	-	-
Intangible assets, net	1,337,000	-	-
Note receivable	(1,503,000)	-	-
Loss on sale of Consumer Choice Systems	(323,000)	-	-
	$ -	$ -	$ -

The accompanying notes are an integral part of these consolidated financial statements

Medifast, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2006, 2005, 2004

1. BACKGROUND

Nature of the Business

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

The Company is engaged in the manufacturing and distribution of Medifastâ and Hi-Energyâ branded and private label weight and disease management products. These products are sold through various channels of distribution, to include web, call center, independent health advisors, medical professionals, weight loss clinics, direct consumer marketing supported via the phone and the web. The processing, formulation, packaging, labeling and advertising of the Company's products are subject to regulation by one or more federal agencies, including the Food and Drug Administration, the Federal Trade Commission, the Consumer Product Safety Commission, the United States Department of Agriculture, and the United States Environmental Protection Agency.

2. Summary of Significant Accounting Policies

Significant accounting policies followed in the preparation of the consolidated financial statements are as follows:

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Jason Pharmaceuticals, Inc., Take Shape For Life, Inc., Seven Crondall Associates, LLC, Jason Properties, LLC and Jason Enterprises, Inc. All inter-company accounts have been eliminated.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flow, the Company considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. At December 31, 2006, the Company had $979,000 in miscellaneous short-term investments through Merrill Lynch that are considered cash equivalents due to terms of maturity, and $106,000 in operating checking accounts.

At December 31, 2005, the Company had $789,000 in a money market account, $365,000 in miscellaneous short-term investments through Merrill Lynch that are considered cash equivalents due to terms of maturity, and $330,000 in operating checking accounts.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded net of reserves for sales returns and allowances, and net of provisions for doubtful accounts. Allowances for sales returns and discounts are based on an analysis of historical trends, and allowances for doubtful accounts are based primarily on an analysis of aging accounts receivable balances and on the

creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

Inventory

Inventories consist principally of packaged meal replacements held in the Company's warehouse. Inventory is stated at the lower of cost or market, utilizing the first-in, first-out method. The cost of finished goods includes the cost of raw materials, packaging supplies, direct and indirect labor and other indirect manufacturing costs. On a quarterly basis, management reviews inventory for unsalable or obsolete inventory. Obsolete or unsalable inventory write-offs has been immaterial to the financial statements as our products have useful lives ranging from 14-24 months.

Advertising

Advertising costs such as preparation, layout, design and production of advertising are deferred. They are expensed when the advertisement is first used, except for the costs of executory contracts, which are amortized as performance under the contract is received. Advertising costs deferred at December 31, 2006 and 2005, were $960,000 and $585,000 respectively. Advertising expense for the years ended December 31, 2006 and 2005 amounted to $14,300,000 and $3,784,000, respectively

Property, Plant, and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The Company computes depreciation and amortization using the straight-line method over the estimated useful lives of the assets acquired as follows:

Building and building improvements	39 years
Equipment and fixtures	3 - 15 years
Vehicles	5 years

The carrying amount of all long-lived assets is evaluated periodically to determine whether adjustment to the useful life or to the unamortized balance is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets and the projected undiscounted cash flows of the operations in which the long-lived assets are used.

In accordance with SFAS No. 144, “Long-Lived Assets”, property, plant and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Income Taxes

The Company accounts for income taxes in accordance with Statements of Financial Accounting Standards No. 109, “Accounting for Income Taxes,” which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income taxes and liabilities are computed annually for differences between the financial statement and the tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Earnings Per Common Share

Basic earnings per share is calculated by dividing net profit attributable to common stockholders by the weighted average number of outstanding common shares during the year. Basic earnings per share exclude any dilutive effects of options, warrants and other stock-based compensation, which are included in diluted earnings per share.

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.

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.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, certificates of deposit, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturity of the financial instruments.

The Company believes that its indebtedness approximates fair value based on current yields for debt instruments with similar terms.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash, certificates of deposit, investment securities and trade receivables. Cash, money markets and investments exceed the federal insurance coverage by $2,610,000 and $2,248,000, respectively. The Company securities at December 31, 2006 and 2005, include amounts deposited with multiple financial institutions markets its products primarily to medical professionals, clinics, and Internet medical sales and has no substantial concentrations of credit risk in its trade receivables.

As of December 31, 2006 and 2005, the Company had two customers that individually represented over 10% of the accounts receivable and in the aggregate, approximately 12% and 21% of the accounts receivable, respectively.

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.

Stock-Based Compensation

Effective January 1, 2006, 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.

Prior to December 31, 2005, the Company accounted for stock-based compensation in accordance with provisions of Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees," and related interpretations. Under APB No. 25, compensation cost was recognized based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. The Company grants stock options at an exercise price equal to 100% of the market price on the date of grant. Accordingly, no compensation expense was recognized for the stock option grants in periods prior to the adoption of SFAS No. 123(R).

Unearned compensation represents shares issued to executives that will be vested over a 5-6 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 $509,000 and $0 at December 31, 2006 and December 31, 2005, respectively. Expense related to vesting of options under FASB 123R was $40,000 and $0 at December 31, 2006 and December 31, 2005, respectively.

SFAS No. 123(R) requires disclosure of pro-forma information for periods prior to the adoption. The pro-forma disclosures are based on the fair value of awards at the grant date, amortized to expense over the service period. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation”, for the period prior to the adoption of SFAS No. 123(R), and the actual effect on net income and earnings per share for the period after the adoption of SFAS No. 123(R).

If compensation expense for the Company's stock-based compensation plans had been determined consistent with SFAS 123, the Company's net income and net income per share including pro forma results would have been the amounts indicated below:

	Years Ended December 31		
	2006	2005	2004
Net income:	(Restated)	(Restated)	
As reported	5,156,000	2,403,000	1,747,000
Add: Stock-based employee compensation expense included in net income, net of related tax effects	24,000		
Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax effects	(24,000)	(291,000)	(108,000)
Net income, pro forma	5,156,000	2,112,000	1,639,000
Net income per share:			
as reported:			
Basic	$ 0.41	$ 0.17	$ 0.16
Diluted	$ 0.38	$ 0.17	$ 0.14
Pro forma:			
Basic	$ 0.41	$ 0.17	$ 0.15
Diluted	$ 0.38	$ 0.17	$ 0.13

The pro forma effect on net income may not be representative of the pro forma effect on net income of future years due to, among other things: (i) the vesting period of the stock options and the (ii) fair value of additional stock options in future years.

For the purpose of the above table, the fair value of each option granted is estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2006	2005	2004
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	0.70	0.70	0.40
Risk-free interest rate	4.50%	4.50%	4.50%
Expected life in years	1-5	1-5	1-5

Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140.” SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets,” and permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the

requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. The Company is currently evaluating the effect the adoption of SFAS No. 155 will have on its financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." SFAS No. 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract under a transfer of the servicer's financial assets that meets the requirements for sale accounting, a transfer of the servicer's financial assets to a qualified special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale or trading securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. Additionally, SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, permits an entity to choose either the use of an amortization or fair value method for subsequent measurements, permits at initial adoption a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights and requires separate presentation of servicing assets and liabilities subsequently measured at fair value and additional disclosures for all separately recognized servicing assets and liabilities. SFAS No. 156 is effective for transactions entered into after the beginning of the first fiscal year that begins after September 15, 2006. The Company is currently evaluating the effect the adoption of SFAS No. 156 will have on its financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, ("FAS 157"). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of FAS 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The FASB also issued in September 2006 Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statement No. 87, 88, 106 and 132(R), ("FAS 158") . This Standard requires recognition of the funded status of a benefit plan in the statement of financial position. The Standard also requires recognition in other comprehensive income certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. FAS 158 provides recognition and disclosure elements to be effective as of the end of the fiscal year after December 15, 2006 and measurement elements to be effective for fiscal years ending after December 15, 2008. The Company has not yet analyzed the impact FAS 158 will have on its financial condition, results of operations, cash flows or disclosures.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, "Quantifying Misstatements." SAB 108 provides interpretative guidance on how public companies quantify financial statement misstatements. There have been two common approaches used to quantify such errors. Under an income statement approach, the "roll-over" method, the error is quantified as the amount by which the current year income statement is misstated. Alternatively, under a balance sheet approach, the "iron curtain" method, the error is quantified as the cumulative amount by which the current year balance sheet is misstated. In SAB 108, the SEC established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the roll-over and iron curtain methods. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on the Company's consolidated financial position and results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim

periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 is not expected to have a material impact on the Company's consolidated financial position and results of operations.

Investments

In accordance with FAS No. 115, "*Accounting for Certain Investments in Debt and EquitySecurities*", securities are classified into three categories: held-to-maturity, available-for-sale and trading. The Company's investments consist of debt and equity securities classified as available-for-sale securities. Accordingly, they are carried at fair value in accordance with FAS No. 115. Further, according to FAS No. 115 the unrealized holding gains and losses for available-for-sales securities are excluded from earnings and reported, net of deferred income taxes, as a separate component of stockholders' equity, unless the loss is classified as other than a temporary decline in market value.

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. Upon the sale of Consumer Choice Systems, Inc. on January 17, 2006, the goodwill balance of $894,000 was removed from the Company's books.

In addition, the Company has acquired other intangible assets, which include: customer lists, non-compete agreements, trademarks, patents, and copyrights. The non-compete agreements are being amortized over the legal life of the agreements ranging between 3 to 7 years. 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, 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.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including unrealized gains and losses on marketable securities. The Company presents comprehensive income in its consolidated statements of stockholders equity.

Reclassifications

Certain amounts for the years ended December 31, 2005 and 2004 have been reclassified to conform to the presentation of the December 31, 2006 amounts. The reclassifications have no effect on net income for the years ended December 31, 2005 and 2004.

3. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITES

The following summarizes cash, cash equivalents, and marketable securities:

	Cost	Accrued interest	Fair value
Cash and cash equivalents			
Demand deposits	$ 106,000	$ -	$ 106,000
Money market accounts	979,000	-	979,000
December 31, 2006	$ 1,085,000	$ -	$ 1,085,000
Marketable Securities			
Marketable securities	$ 1,206,000	$ 334,000	$ 1,540,000
December 31, 2006	$ 1,206,000	$ 334,000	$ 1,540,000
Cash and cash equivalents			
Demand deposits	$ 330,000	$ -	$ 330,000
Money market accounts	1,154,000	-	1,154,000
December 31, 2005	$ 1,484,000	$ -	$ 1,484,000
Cash equivalents and marketable securities			
Marketable securities	$ 2,418,000	$ 282,000	$ 2,700,000
December 31, 2005	$ 2,418,000	$ 282,000	$ 2,700,000

4. INVENTORY

Inventory consists of the following at December 31, 2006 and 2005:

	2006	2005
Raw materials	$ 1,872,000	$ 1,906,000
Packaging	1,625,000	1,142,000
Finished goods	4,758,000	2,427,000
	$ 8,255,000	$ 5,475,000

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expense and other current assets as of December 31, 2006 and 2005, consist of the following:

	2006	2005
Marketing and advertising	1,830,000	1,592,000
Taxes	-	779,000
Supplies	158,000	393,000
Insurance	519,000	294,000
Services		50,000
Other	92,000	165,000
	2,599,000	3,273,000

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2006 and 2005, consist of the following:

	2006	2005
Land	$ 650,000	$ 650,000
Building and building improvements	7,182,000	6,871,000
Equipment and fixtures	10,805,000	5,583,000
Vehicle	43,000	19,000
	18,680,000	13,123,000
Less accumulated depreciation and amortization	4,660,000	3,588,000
Property, plant and equipment - net	$ 14,020,000	$ 9,535,000

Substantially all of the Company's property, plant and equipment are pledged as collateral for various loans (see Note Payable footnote).

Depreciation expense for the years ended December 31, 2006, 2005, and 2004 were $1,072,000, $835,000 and $804,000, respectively.

7. TRADEMARKS AND INTANGIBLES

	As of December 31, 2006		**As of December 31, 2005**	
	(Restated) **Gross Carrying Amount**	(Restated) **Accumulated Amortization**	(Restated) **Gross Carrying Amount**	(Restated) **Accumulated Amortization**
Customer lists	$ 5,587,000	$ 1,969,000	$ 4,356,000	$ 1,398,000
Non-compete agreements	840,000	840,000	840,000	566,000
Trademarks, patents, and copyrights				
finite life	1,557,000	210,000	920,000	121,000
infinite life	909,000	-	1,059,000	-
Goodwill	-		894,000	-
Total	$ 8,893,000	$ 3,019,000	$ 8,069,000	$ 2,085,000

Amortization expense for the years ended December 31, 2006, 2005 and 2004 was as follows:

	(Restated) 2006	(Restated) 2005	2004
Customer lists	$ 774,000	$ 1,004,000	$ 244,000
Non-compete agreements	273,000	369,000	162,000
Trademarks, patents, and copyrights	152,000	58,000	-
Total trademarks and intangibles	$ 1,199,000	$ 1,431,000	$ 406,000

On January 17, 2006 the Consumer Choice Systems division of the Company was sold which included the sale of $1,601,000 in gross intangible assets and $265,000 in accumulated amortization.

The estimated future amortization expense of trademarks and intangible assets is as follows:

For the years ending December 31,	Amount
2007	$ 1,640,000
2008	1,615,000
2009	675,000
2010	600,000
2011	590,000

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Trade payables	$ 2,214,000	$ 1,695,000
Accrued payroll and related taxes	328,000	314,000
Sales commissions payable	371,000	254,000
Total	$ 2,913,000	$ 2,263,000

9. COMMITMENTS AND CONTINGENCIES

The Company leases office space for its eleven corporately owned Medifast Weight Control Centers under lease terms ranging from one to five years with leases commencing in 2004, 2005, 2006 and 2007. Monthly payments under the leases range in price from $1,200 to $3,500. The Company is required to pay property taxes, utilities, insurance and other costs relating to the leased facilities.

The Company leases large commercial printers for our printing operation that supports our direct response marketing efforts. The leases extend through November 2009. The annual lease payments are $509,000, $509,000, and $467,000 for the years ended December 31, 2007, 2008, and 2009, respectively.

The following is a schedule by years of future minimum rental and lease payments required under operating lease that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2006:

For the Years Ending December 31,	
2007	$ 762,000
2008	730,000
2009	682,000
2010	110,000
2011	70,000
Total minimum payments required	$ 2,354,000

Rent expense for the years ended December 31, 2006, 2005, and 2004 was $116,000, $211,000, and $229,000, respectively.

There is no pending or threatened legal action that would have material adverse on the Company’s consolidated financial position, results or operations or cash flows in future years.

10. INCOME TAXES

Significant components of the income tax benefit for the years ended December 31 are as follows:

	(Restated) 2006	(Restated) 2005	2004
Current:			
Federal	$ 1,073,000	$ 631,000	$ 600,000
State	327,000	181,000	90,000
Total Current	$ 1,400,000	$ 812,000	$ 690,000
Deferred:			
Federal	$ 786,000	$ 157,000	$ 408,000
State	121,000	33,000	61,000
Total deferred	907,000	190,000	469,000
Income tax expense	$ 2,307,000	$ 1,002,000	$ 1,159,000

A reconciliation between the provision for income taxes calculated at the U.S. federal statutory income tax rate and the consolidated income tax benefit in the consolidated statements of income for the years ended December 31 is as follows:

	(Restated) 2006	(Restated) 2005	2004
Provision at the U.S. federal statutory rate	$ 2,537,000	$ 1,102,000	$ 1,087,000
State taxes, net of federal benefit	371,000	170,000	145,000
Intangible assets	(297,000)	(156,000)	(73,000)
Other temporary differences	-	(98,000)	-
Cost segregation study	(275,000)	-	-
Permanent differences	(29,000)	(16,000)	-
Income tax expense	$ 2,307,000	$ 1,002,000	$ 1,159,000

Medifast, Inc.’s deferred income taxes reflect the net tax effect of temporary differences between the bases of assets and liabilities for financial reporting purposes and their bases for income tax purposes. Significant components of the Company’s deferred tax liabilities and assets as of December 31 are as follows:

	(Restated) 2006	(Restated) 2005
Deferred tax assets		
Intangible assets	$ 480,000	$ 100,000
Accounts receivable	37,000	-
Inventory overhead and write downs	49,000	-
Deferred compensation	41,000	-
Total deferred tax assets	$ 607,000	$ 100,000
Deferred Tax Liabilities		
Intangible assets	$ -	$ -
Accounts receivable	-	(37,000)
Inventory overhead and write downs	-	(53,000)
Total deferred tax liabilities	$ -	$ (90,000)

The 2006 effective income tax rate of 30.9% differed from the federal statutory rate of 34% due to the amortization of intangible assets, a cost segregation study performed on fixed assets, as well as timing differences for other temporary and permanent differences, and state income taxes.

The 2005 effective income tax rate of 29.4% differed from the federal statutory rate of 34% due to the amortization of intangible assets, timing differences for other temporary and permanent differences, and state income taxes.

The 2004 effective income tax rate differed from the federal statutory rate due to state taxes, amortization of intangible assets, and for a net operating loss deduction carried forward from 2003.

11. STOCK OPTION PLAN

On October 9, 1993 and as amended in May 1995, the Company adopted a stock option plan ("Plan") authorizing the grant of incentive and non-incentive options for an aggregate of 500,000 shares of the Company's common stock to officers, employees, directors and consultants. Incentive options are to be granted at fair market value. Options are to be exercisable as determined by the stock option committee.

In November 1997, June 2002 and July 2004, the Company amended the Plan by increasing the number of shares of the Company's common stock subject to the Plan by an aggregate of 200,000 shares, 300,000 shares and 250,000 shares respectively.

The Company has elected to continue to account for stock option grants in accordance with APB 25 and related interpretations. Under APB 25, where the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation is recognized.

The following summarizes the stock option activity for the years ended December 31:

	2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	359,727	$ 2.71	389,397	$ 1.51	439,455	$ 1.76
Options granted	100,000	6.25	333,333	2.64	30,000	8.60
Options reinstated	16,666	6.36	-	0.00	-	0.00
Options exercised	(128,147)	(2.11)	(138,335)	(1.83)	(47,221)	(1.19)
Options forfeited or expired	(26,667)	(8.36)	(224,668)	(1.17)	(32,837)	(7.01)
Outstanding at end of year	321,579	$ 3.88	359,727	$ 2.71	389,397	$ 1.51
Options exercisable at year end	211,577	$ 2.77	329,725	$ 2.56	350,336	$ 1.11

The weighted average fair value at date of grant for options granted during the years 2006, 2005, and 2004 were $6.25, $2.64, and $8.60, respectively.

In 2005, the Company incorrectly cancelled 75,000 options to a former consultant. The options were correctly added back to the 2005 and 2006 option schedule above. The omission from the schedule in prior year had no impact on

earnings per share. During 2006, the former consultant exercised 25,000 options and 50,000 remain outstanding.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life Remaining (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.50	50,000	1.0	$ 0.50	50,000	$ 0.50
$1.60	2,779	.7	$ 1.60	2,779	$ 1.60
$2.87	123,334	3.3	$ 2.87	123,334	$ 2.67
$3.83	23,334	3.9	$ 3.83	13,332	$ 3.83
$4.80	15,000	1.3	$ 4.80	15,000	$ 4.80
$6.25	100,000	4.1	$ 6.25	-	$ 6.25
$11.12	7,132	1.4	$ 11.12	7,132	$ 11.15
	321,579		$ 3.88	211,577	$ 2.77

12. LONG-TERM DEBT AND LINE OF CREDIT

Long-term debt as of December 31, 2006 and 2005, consist of the following:

	2006	2005
$3,539,000 ten year term loan secured by two buildings and land at a variable rate which was 7.1% at December 31, 2006. Due 2016	$ 3,480,000	$ 2,201,000
$200,000 five-year term loan secured by equipment fixed rate was 3% at December 31, 2006. Due 2008	49,000	90,000
$475,000 seven-year loan secured by the building and land at a variable rate at LIBOR plus 250 bps, which was 7.85 % on December 31, 2006. Due 2011	396,000	428,000
$366,000 three-year term loan secured by certain assets at LIBOR plus 250 basis points, which was at 7.82% at December 31, 2006. Due 2008	132,000	254,000
$1,256,000 ten-year reducing revolver line of credit rate at LIBOR plus 220 bps , which was 6.62% on December 31, 2006	-	1,506,000
$186,976 three-year term loan secured by 20,000 restricted common shares variable rate which was 10.25%	-	59,000
	4,057,000	4,538,000
Less current portion	548,000	561,000
	$ 3,509,000	$ 3,977,000

Future principal payments on long-term debt for the next 5 years are as follows:

2007	$ 548,000
2008	404,000
2009	386,000
2010	386,000
2011	386,000
Thereafter	1,947,000
	$ 4,057,000

The Company has established a $5 million revolving line of credit at the LIBOR rate plus 1.30% with Mercantile Safe Deposit and Trust Company secured by substantially all of the assets of Jason Pharmaceuticals, Inc. The outstanding balance on this line was $1,256,000 and $633,000 at December 31, 2006 and 2005, respectively. Effective October 2, 2006, the 10-year revolver with an original balance of $1,256,000 was refinanced with the Company's other building loan for a total of $3,539,000 with Mercantile Safe Deposit and Trust Company secured by two buildings and land at a variable rate which was 7.1% on December 31, 2006.

13. EMPLOYMENT AGREEMENTS

The Board of Directors of Medifast, Inc. is in the process of implementing a management succession plan which will take place over the next 24 months. In doing so, they have had 3 key executive officers sign 6-year employment contracts to ensure that there will be minimal turnover in selected key management positions. The Executives associated with this succession plan include Michael S. McDevitt, President and Chief Financial Officer, Margaret MacDonald, VP of Operations and Brendan Connors, CPA, VP of Finance. Bradley T. MacDonald, the Executive Chairman of the Board of Directors and CEO has signed and executed a new 5 year employment agreement as the Executive Chairman of the Board of Directors and will provide on-going executive mentoring, financial and M&A advice, and new business development for the Company.

On February 8, 2006, three executive officers of the Company signed 6-year employment contracts. The officers received shares of common stock in varying amounts totaling 380,000 shares at $6.25 per share that will be vested over 6 years. In addition, Bradley T. MacDonald, Chairman and CEO signed a new 5-year employment agreement and was granted 100,000 stock options at $6.25 that will vest over 5 years beginning on February 8, 2007.

14. WARRANTS

During 2003, the Company issued 200,000 warrants to James Paradis and Anthony Burrascono, both affiliated with Villanova University and 200,000 warrants an investment banker, for advisory and consulting services provided to the Company. The warrants vest in five equal installments of 40,000 warrants per year over a five-year period. These are five-year warrants to purchase common shares at an exercise price of $4.80 per share. These warrants may be cancelled, with a 90-day notice, if the consultants fail to perform to the satisfaction of the Company. During 2005, 120,000 unvested warrants issued to James Paradis and Anthony Burrascono were cancelled. In 2006, James Paradis and Anthony Burrascano exercised 80,000 warrants at $4.80. In 2005, the Company incorrectly cancelled 80,000 warrants to a former consultant. The warrants were correctly added back to the 2005 and 2006 warrant schedule. The omission from the schedule in prior year had no impact on earnings per share. During 2006, the former consultant exercised 40,000 warrants and 120,000 remain outstanding.

During 2003, the Company issued 50,000 warrants to Consumer Choices Systems, Inc. ("CCS") as part of the payment for the purchase of the assets of CCS. These warrants are three-year warrants to purchase common shares at an exercise price of $10.00 per share. Of this amount, 25,000 warrants were exercised in 2004. Of the remaining 25,000 warrants, 22,810 were exercised in 2006 and the remaining 2,190 expired.

During 2003, the Company issued 63,750 warrants and 18,750 warrants to Mainfield Enterprises, Inc. and Portside Growth & Opportunity Fund. These warrants are five-year warrants to purchase common shares at exercise prices of $16.78 per share, which was equal to one hundred fifteen percent (115%) of the five-day volume weighted average price, all pursuant to the terms of that certain Securities Purchase Agreement by and between the Company and Mainfield Enterprises, Inc. and Portside Growth & Opportunity Fund dated as of July 24, 2003.

During 2006, there were 120,000 warrants exercised at $4.80 and 22,810 warrants exercised at $10. In addition, 2,190 warrants expired.

The fair value of these warrants was estimated using the Black-Scholes pricing model with the following assumptions: interest rate 4.5%, dividend yield 0%, volatility 0.70 and expected life of five years.

The Company has the following warrants outstanding for the purchase of its common stock:

Exercise Price	Expiration Date	Years Ended December 31, 2006	2005	2004
$0.35	March, 2005	-	-	2,000
$4.80	January, 2009	120,000	240,000	360,000
$10.00	June, 2006	0	25,000	25,000
$16.78	July, 2008	82,500	82,500	82,500
		202,500	347,500	469,500
	Weighted average exercise price	9.68	8.02	$ 7.16

As of December 31, 2006, 82,500 of the warrants are exercisable.

15. QUARTERLY RESULTS (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006				
Revenue	$ 19,183,000	$ 19,954,000	$ 19,642,000	15,307,000
Gross Profit	14,405,000	15,101,000	14,937,000	11,406,000
Operating Income	2,950,000	2,350,000	1,771,000	310,000
Net Income	2,001,000	1,448,000	1,455,000	252,000
Earnings per common share - diluted (1)	0.15	0.11	0.11	0.02
2005				
Revenue	$ 8,326,000	$ 10,555,000	$ 10,985,000	10,263,000
Gross Profit	6,253,000	7,932,000	8,310,000	7,473,000
Operating Income	781,000	1,023,000	1,135,000	610,000
Net Income	426,000	672,000	526,000	488,000
Earnings per common share - diluted (1)	0.03	0.05	0.04	0.04

(1) -Earnings per common share is computed independently for each of the quarters presented; accordingly, in the sum of the quarterly earnings per common share may not equal the total computed for the year.

16. RESTATEMENT

The December 31, 2005 financial statements have been restated to recognize an additional $525,000 in amortization expense for a customer list acquired in December 2004. The Company originally assumed an indefinite life on the customer list. Per FASB 142, an estimated useful life for a customer list has to be assigned when the asset is placed into use. As a result, amortization expense should have commenced on January 1, 2005. Pre-tax income decreased by $525,000 from $3,930,000 to $3,405,000 for the year-ended December 31, 2005. Net income for the year ended December 31, 2005 decreased by $324,000 from $2,436,000 to $2,112,000 and retained earnings decreased from $1,149,000 to $825,000.

The December 31, 2006 financial statements have been restated to decrease amortization expense on customer lists by $125,000. Pre-tax income increased by $125,000 from $7,338,000 to $7,463,000 for the year-ended December 31, 2006. Net income for the year ended December 31, 2006 increased by $74,000 from $5,082,000 to $5,156,000 and retained earnings increased from $5,907,000 to $5,981,000.

17. 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 and Clinics. The All Other reporting segments consist of Hi-Energy and Medifast Weight Control Centers, the Company’s parent company operations, as well as the Consumer Choice Systems, Inc. division which was sold in January of 2006.

The 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 years ended December 31, 2006, 2005, and 2004:

	Year Ended December 31, 2006 (Restated)			
	Medifast	**All Other**	**Eliminations**	**Consolidated**
Revenues, net	71,049,000	3,147,000	(110,000)	74,086,000
Cost of Sales	17,724,000	513,000		18,237,000
Other Selling, General and Adminstrative Expenses	42,418,000	3,503,000		45,921,000
Depreciation and Amortization	1,811,000	460,000		2,271,000
Interest (net)	146,000	48,000		194,000
Provision for income taxes	2,298,000	9,000		2,307,000
Net income (loss)	6,652,000	(1,386,000)	(110,000)	5,156,000
Segment Assets	21,978,000	14,949,000		36,927,000

	Year Ended December 31, 2005 (Restated)			
	Medifast	**All Other**	**Eliminations**	**Consolidated**
Revenues, net	37,980,000	2,311,000	(162,000)	40,129,000
Cost of Sales	9,012,000	1,149,000		10,161,000
Other Selling, General and Adminstrative Expenses	21,846,000	2,583,000		24,429,000
Depreciation and Amortization	1,629,000	637,000		2,266,000
Interest (net)	184,000	(25,000)		159,000
Provision for income taxes	968,000	34,000		1,002,000
Net income (loss)	4,341,000	(2,067,000)	(162,000)	2,112,000
Segment Assets	15,985,000	14,560,000		30,545,000

	Year Ended December 31, 2004			
	Medifast	**All Other**	**Eliminations**	**Consolidated**
Revenues, net	25,686,000	1,654,000		27,340,000
Cost of Sales	6,292,000	454,000		6,746,000
Other Selling, General and Adminstrative Expenses	14,020,000	2,385,000		16,405,000
Depreciation and Amortization	662,000	548,000		1,210,000
Interest (net)	112,000	(21,000)		91,000
Provision for income taxes	1,137,000	22,000		1,159,000
Net income (loss)	3,463,000	(1,734,000)		1,729,000
Segment Assets	12,978,000	12,990,000		25,968,000

18. DISPOSAL OF A BUSINESS SEGMENT

On January 17, 2006, Jason Enterprises, Inc., a wholly owned subsidiary of Medifast, Inc. sold certain assets of its Consumer Choice Systems division. Consumer Choice Systems distributes products focused on women's well being to include supplements for menopause relief and urinary tract infections. The sale price was $1.82 million which included $358,000 in inventory, $131,000 in receivables, and $1,337,000 in net intangible assets. Consumer Choice Systems was sold to a former Medifast, Inc. board member. The sale price was $1.8 million and will be recorded as a note receivable by Medifast, Inc. over a 10-year term. The loan is collateralized by 50,000 shares of Medifast, Inc. stock. The following table illustrates segment information from the date Consumer Choice Systems was purchased by Medifast, Inc. on June 11, 2003 through December 31, 2005.

	2005	2004	2003
Revenues, net	$ 958,000	$ 1,498,000	$ 851,000
Cost of Sales	733,000	686,000	343,000
Gross Profit	225,000	812,000	508,000
Compensation and Professional Fees	290,000	213,000	254,000
Selling, General and Adminstrative Expenses	208,000	256,000	212,418
Depreciation and Amortization	209,000	90,000	95,000
Interest (net)	8,000	17,000	8,000
Net income (loss)	(490,000)	236,000	(61,418)
Earnings per share - basic	(0.04)	0.02	(0.01)
Earnings per share - diluted	(0.04)	0.02	(0.01)
Segment Assets	2,216,000	2,625,000	2,497,000
Fixed assets, net of depreciation	54,000	71,000	91,000
Inventory	293,000	391,000	470,000
Prepaid expenses	327,000	-	53,000
Accounts receivable	171,000	629,000	221,000
Intangible assets	443,000	635,000	635,500
Goodwill	893,500	893,500	893,500

INDEX TO EXHIBITS

No.

3.1 Certificate of Incorporation of the Company and amendments thereto*

3.2 By-Laws of the Company*

10.1 1993 Stock Option Plan of the Company as amended*

10.3 Lease relating to the Company's Owings Mills, Maryland facility**

10.4 Employment agreement with Bradley T. MacDonald***

10.5 Employment agreement with Bradley T. MacDonald signed February 8, 2006

10.6 Employment agreement with Michael S. McDevitt signed February 8, 2006

10.7 Employment agreement with Margaret MacDonald signed February 8, 2006

10.8 Employment agreement with Brendan N. Connors signed February 8, 2006

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

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* Filed as an exhibit to and incorporated by reference to the Registration Statement on Form SB-2 of the Company, File No. 33-71284-NY.

** Filed as an exhibit to and incorporated by reference to the Registration Statement on Form S-4 of the Company, File No. 33-81524.

*** Filed as an exhibit to 10KSB, dated April 15, 1999 of the Company, file No. 000-23016.

(b) Reports on Form 8-K

September 21, 2005 to report the Annual Meeting of Shareholders September 16, 2005

October 19, 2005, to report the repurchase of 110,000 shares of common stock

January 17, 2006, to report the sale of Consumer Choice Systems assets, the promotion of Michael S. McDevitt to Chief Financial Officer, and 2006 financial guidance

August 14, 2006, to report the acceptance by the New York Stock Exchange to list common shares on the NYSE

September 25, 2006, to report the results of the Annual Meeting of Shareholder on September 8, 2006

October 2, 2006, to announce the election of two new Board of Directors

March 1, 2007, to announce Michael S. McDevitt promoted to CEO, Margaret MacDonald promoted to President and COO, and Bradley T..MacDonald named Executive Chairman of the Board.

March 7, 2007, to announce full-year 2007 revenue and diluted earnings per share guidance

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

BRADLEY T.
MACDONALD
Bradley T.
MacDonald
Executive
Chairman of the
Board
Dated:
September 6,
2007

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant and in the capacities and on the dates indicated have signed this Report below.

Name	Title	Date
/s/ BRADLEY T. MACDONALD Bradley T. MacDonald	Chairman of the Board, Director	September 6, 2007
/s/ GEORGE LAVIN George Lavin	Director	September 6, 2007
/s/ MICHAEL C. MACDONALD Michael C. MacDonald	Director	September 6, 2007
/s/ MARY T. TRAVIS Mary T. Travis	Director	September 6, 2007
/s/ REV. DONALD F. REILLY, OSA Rev. Donald F. Reilly, OSA	Director	September 6, 2007
/s/ MICHAEL J. MCDEVITT Michael J. McDevitt	Director	September 6, 2007
/s/ JOSEPH D. CALDERONE Joseph D. Calderone	Director	September 6, 2007
/s/ CHARLES P. CONNOLLY Charles P. Connolly	Director	September 6, 2007
/s/ DENNIS M. MCCARTHY	Director	September 6, 2007

Dennis M. McCarthy

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