Updated January, 2010

Expert Report on *Take Shape for Life*, a Division of Medifast, Inc. (NYSE: MED)

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Submitted to: Fraud Discovery Institute

Re: Analysis of Business Models and Practices of Medifast and *Take Shape for Life*; Review and Analysis Financial Disclosures and Trends; Implications for Medifast Shareholders

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Submitted:______________________________
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Background and Overview:

This report is prepared for Fraud Discovery Institute. It reviews and updates earlier in-depth analyses of Medifast, Inc. submitted in early 2009, the last report using data from the 2008 annual report and the first quarter of 2009. As described and analyzed in those earlier reports, Medifast should now be properly described not as a diet or meal replacement company, but rather as a multi-level marketing scheme that primarily markets a "business opportunity." The company uses several other channels of distribution but more than two-thirds of its revenue now comes from its multi-level marketing segment, called Take Shape for Life (TSFL), which accounts for virtually all Medifast growth and profit. That sector is therefore the focus of this report as it was with the earlier ones.

Medifast's true competitors now are not Weight Watchers and NutriSystem, but Amway and Pre-Paid Legal Services, among other such pyramid selling schemes. Some other companies in this field are now also enjoying revenue or recruitment surges. This reflects the true nature of these businesses as purveyors of an "income opportunity". Selling a promise of "unlimited income" and claiming to be "Recession proof", some companies in that market are experiencing a boom, while the markets for the "products" that the schemes' sell – meal replacements, for example, in the case of Medifast – are in decline due to the Recession.[1]

This updated report moves the analyses forward from Medifast's endless chain "business opportunity" to the inflation of Medifast's stock. Effectively, the pyramid selling scheme based on the lure of income to consumers from an endless recruiting chain, is being leveraged into the securities market. This evolution of a Medifast consumer pyramid on Main Street to an inflated stock scheme on Wall Street has an obvious and unavoidable analogy. That is the recent real estate disaster in which inflated housing prices and exploding mortgages were sold to consumers on the myth of ever-rising housing values. These doomed assets and loans were then sold into financial markets as lucrative securities. The underlying deception and delusion about ever-rising real estate pricing escalated to new levels and spread to new sectors of the economy, vastly increasing the eventual financial harm.

Review of Medifast's "Income Opportunity"

The foundation of Medifast's stock surge is the recent rise in its revenue, which is driven by the "endless chain" income opportunity that it markets to consumers. Medifast's income scheme is a solicitation to consumers to become distributors that buy and sell the company's meal replacement products and recruit others to do the same. Medifast seamlessly integrates its "income opportunity" product with its meal replacement products. It makes *earning money* a key part of its three-part "system" for weight control

[1] The current revenue surge in most pyramid selling schemes, a.k.a. multi-level marketing, is well documented. In a May 15, 2009 article in *USA Today*, the president of the Direct Selling Association stated, "… unfortunately as the unemployment rate rises to 10% or higher, we'll be picking up more people who need an income-earning opportunity."

and good health – the only company in that field to do this – and its offers consumers the company's own recruitment scheme as the means to meet financial goals.[2]

The earlier reports closely examined the financial plight of consumer-investors who join as Take Shape for Life salespeople, called *coaches*. The report dissected TSFL's complex, nearly indecipherable pay plan and described it as a disguised *chain letter*. The income opportunity, based on the plan's structure, rules, bonuses and commission schedule, primarily depends upon endless chain recruiting of more "coaches", not on retail sales of its products. The cost of selling, competitive factors, and the paltry 15-20% commission offered on retail sales make that option a myth and facade to obscure the recruitment pyramid. The income scheme is a classic "endless chain." The report also raised the question of the plan's *legality*, its jeopardy under California's statute against "endless chain" plans, and the risk of its being challenged by other regulators or by consumers in court as a fraud.

> *"For example, suppose that a buyer was promised a chance to obtain a product free of charge by referring five others and those five were each promised the same opportunity if each referred by more, and so on at the same rate of increase. After ten rounds the cumulative number of persons enrolled would be 12,207,03. Of course, these schemes never approach astronomical proportions. The saturation point is reached at an early stage… It follows that a large segment of the buyers participating in these schemes will suffer financial loss.."*
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> -- California Senator (later Mayor of San Francisco), George Moscone, in a 1968 letter to Governor Ronald Reagan when the "endless chain" statute was enacted. He describes the most basic type of endless chain promotion that the law outlawed.

Based on available information, the earlier reports projected that under the Take Shape for Life income plan, the vast majority of participants would not be profitable and that only a small group positioned at the top of the pyramid could achieve the advertised profitable gains. These gains, by design, depend upon a large base of unprofitable consumer-investors *at all times*.

> *"The proposed rewards set forth in a pyramid scheme are tied primarily to an ongoing ability to recruit others into a stated program and, thereby, a situation is created in which the proposed rewards cannot come true for the vast majority of participants."*
>
> --Dr. Peter Vandernat, Sr. Economist and Pyramid Scheme Expert, U.S. Federal Trade Commission

The report cited the often quoted description of an endless chain pay plan by FTC expert, Dr. Peter Vandernat, in which he showed that such plans *always* doom the majority of participants to be in loss positions and that the mathematical expansion requirements of the plan are impossible and unsustainable. An endless chain pay plan, while claiming to offer everyone a chance at income, in fact, doom the vast majority, regardless of ambition, talent and "positive thinking." For these reasons, such plans are treated under the FTC Act as "unfair and deceptive trade

[2] TSFL Website description of its diet program states that it includes three key components:

- *Healthy Body* - physical health is the foundation of a happy and fulfilling life.
- *Healthy Mind* - how we feel about ourselves also affects long term Optimal Health.
- *Healthy Finances* - debt causes stress - and stress can take a severe toll on both your physical and mental health. By managing and eliminating debt, learning ways to budget, and or *seizing financial opportunities*, you further yourself on the road to Optimal Health. (italics added)

As the promotion goes on to explain, the opportunity to "seize" is to become a sales representative for Take Shape for Life.

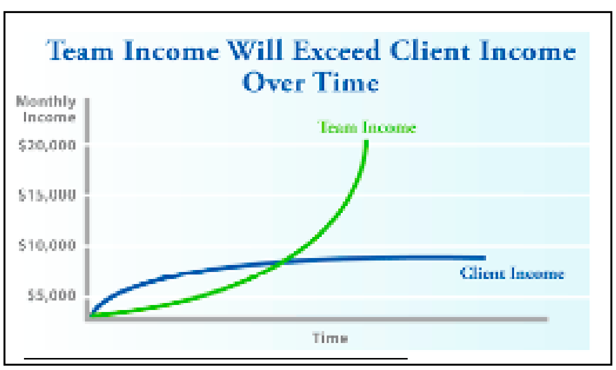
practices" and are declared illegal in California and some other states. The fraud of these plans is not in the physical products offered but in the *marketing ploy used to drive sales*.

At the time of the earlier reports, Medifast did not disclose even the barest details of the income's scheme *results*. Only "potential income" claims, and "success testimonials" were presented. Consumers were solicited without being provided information on average incomes at the various ranks or the percentages of participants in each rank. After June, 2009, Medifast began to offer consumers some information in the form of its "Official Income Disclosure Statement."[3]

This document verifies the results that the earlier reports to Fraud Discovery Institute projected. A full analysis of the data, using numbers of "active" coaches disclosed in Medifast's Q-2'09 10Q, is at the end of this report as an Appendix item.

- The disclosure report, though offering useful data, still does not disclose the most important factors needed for due diligence, that is, what percentage of all coaches earn any income at all, how many drop out within a year, or the average longevity of coaches. It limits the data to what it calls "active" coaches. If *all* coaches were included, the income averages would necessarily be lower, along with the percentages in each rank.
- Relying only on the data provided by Medifast shows that, on average, the bottom 80% of all "active" coaches do not earn as much per month as they would likely expend to participate in the meal replacement plan themselves and for costs of doing business.
  - √ The mean average income of the bottom 80% of coaches – that do earn income – is $52 a week, about one-half of what the meal replacement products cost.
  - √ The mean average "income" does not reflect joining fees or expenditures for products, marketing materials, shipping, or any other business costs, and therefore cannot be called *profit*.
- The data show that the pay plan shifts the great majority of the commission dollars paid out by the company to the recruiters, not retailers.
  - √ About two-thirds of every commission dollar generated by sales or purchases of the bottom 80% are transferred to the top 20%
  - √ 67% of *all* commissions paid out on total revenue were transferred to the top 10% of active coaches.
- The data also reveal the egregious deceptions of Medifast website promotions that have illustrated incomes ranging from $8,000 to $20,000 per month. The actual data show that only those in the top 1% gained such incomes.

2009 income opportunity promotion on Take Shape for Life website



[3] http://www.tsfl.com/IDS.pdf

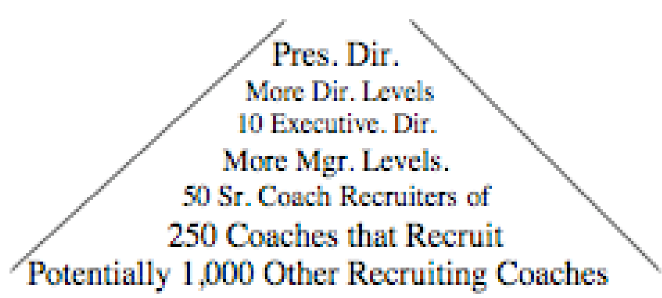
- Take Shape for Life's new disclosure continues to conceal critical data factors. In particular it does not reveal how much of the income of the top 1% is derived from retail sales they themselves made and how much is merely "overrides" on the purchases and sales of the "downline." The mean average commission income for the bottom one-half of the "active" sales channel (Fast Track Coaches and Health Coaches) – $24 a week – indicates a monthly retail sales level of about 2 meal replacement customers per coach. Medifast does not disclose the overall average retail sales per coach, just as it does not reveal how many coaches are actually enrolled, including those that make no sales but do purchase goods and pay fees.

Over the last 30 years, endless chain trickery has evolved from chain letters, investment plans, "gifting" clubs and penny stock scams into yet another disguise, that of a *business model*. This is the model that Medifast has adopted in its Take Shape for Life division. In the recent real estate sham, investors were called "homeowners". In the Medifast model, they play the role of home-based business owners, "direct sellers" or "coaches". In recent bubbles, investment dollars were dressed up as mortgages and stock portfolios. In the business model, they are disguised as sign-up fees, inventory purchases, marketing fees, seminar registrations, etc.

Medifast's business model manifestly meets the pyramid definition.

- Gaining a position on the Take Shape for Life pyramid pay plan requires a payment of between $100 and $300. Each coach would also purchase inventory, marketing materials and possibly attend the TSFL annual convention, with a registration fee of $250 plus all travel and accommodation costs.
- The coach likely purchases the TSFL meal replacement diet products which cost approximately $300 per month.
- The new salesperson is lured with claims and testimony of high income potential of $8,000 to $20,000 or more.
- The pay plan pays far more – per sale – to those who recruit other coaches than to those who actually sell products to consumers, and the greatest share of all commissions is transferred to those in the top positions of the pyramid.
- The pay plan leverages 10 expanding levels of coaches on a five-recruit-25-recruit-125, etc. plan.
- Bonuses are nakedly paid up front for recruiting new coaches
- Every new coach is authorized to recruit others, with no limit and no control on saturation. Each coach is offered financial rewards to expand the number of "competitor" salespeople!

Take Shape for Life's Endless Chain Incentive Scheme Pays Escalating Bonuses to Recruiters up the chain. From Presidential Director down to the newest recruit, income is based on recruiting more and more coaches in a geometric progression to infinity. By design a profitable coach must have many "below", locking in the vast majority into non-profitable "feeder" roles.



Pyramid Meets Pump-and-Dump

The limitless income opportunity spread by Medifast promoters has recently produced a sudden rise in revenue as consumers have become desperate for income. This revenue surge now creates another deception on Wall Street. This is the myth of Medifast as an explosively growing company, a maverick in its field, a company not tethered by market trends or market sizes. In the face of broad market trends to the contrary, Medifast has even claimed that its $300 a month meal replacement products increase in appeal as the Recession deepens and joblessness spreads because people become more concerned by their appearance![4] This delusion inflates the stock out of all proportion to revenue because the future expansion is presented as "unlimited", just like the coaches' mythical prospects for earnings.

Medifast's stock now has a far higher price-to-earnings ratio than Apple Computer's and is four times greater than the largest company in its field, Weight Watchers. However, the recent and massive rise in share price for this small company with undistinguished products and operating in a depressed market sector is not new. Indeed, it is part of a pattern for Medifast. Previous market surges were associated with what turned out to be false or grossly exaggerated claims about its product. Rapid declines followed revelations of the deception or, in one case, the discovery that the company CEO was falsely hyping the stock under a pseudonym on the internet.[5]

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Additionally, the market surge is accompanied by yet another notable pattern for Medifast, insider stock sell offs. More than $6 million worth of shares have been dumped in the last two months alone and, no shares were purchased by insiders in the last six months, though many were awarded in 2009.

The 2009 recent market surge, like others before, is attributable to a deceptive claim. This time the company has convinced the Wall Street that the endless chain income scheme of its Take Shape for Life division is truly "limitless." Share price now appears to reflect a belief that company growth, based on ever-expanding recruitment of "coaches", can continue indefinitely.

Pyramid Power

As revealed in the size of the recent real estate bubble, the scale of the credit-default swap market, and the bloated base of Bernard Madoff investors, the classic pyramid scheme (also known as a bubble, Ponzi scheme, advance-fee fraud or closed market swindle) has enormous market power. Harnessed to stock sales, investment portfolios, product sales, home mortgages, or breeding pigeons, it can mobilize millions of people and draw in billions of dollars very rapidly. Because it is always stealing from the future,

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[4] In a December, 16, 2008 press release, announcing Q-3 sales growth, Medifast's board chair, Brad MacDonald stated, "…during tough economic times, consumers turn their attention to improving their health and appearance."

[5] In early 2007, Medifast's stock took yet another sudden dip when CEO, Bradley T. MacDonald, quickly resigned his position. *Barron's Magazine* had disclosed that he had placed postings on Yahoo financial boards under a pseudonym. (*Barron's*, Jan. 8, 2007).

it creates the illusion of extraordinarily fast growth, unstoppable advancement and unlimited expansion. When, it is in "momentum", only a clear-eyed evaluation of the fundamentals can reveal the bad end it is moving toward. Among those profiting from the "growth", such an analysis is typically resisted and denied.[6]

Medifast has vastly outperformed all competitors. This little known company, without advertising, has show spectacular growth during the "Great Recession." While all its competitors who sell essentially the same types of products suffered significant declines Medifast grew rapidly.

Medifast has shown phoenix-like growth. Yet, this unusual growth should be a red flag to investors and regulators that something is awry. It was Bernard Madoff's uncanny consistency of 12% profits each year, and his ability to deliver projected returns regardless of the size of his portfolio and in the face of down market trends that first attracted the suspicion of whistle-blowers.

Nothing in Medifast's product line indicate a competitive advantage. Pricing of its products closely matches others in the field. Only one factor differentiates Medifast. That is its multi-level marketing structure. Revenue growth matched and depended upon the company's ability to continually expand its base of "coaches" who are paid contractors. Though the stock market has resoundingly responded to Medifast's revenue growth, little or no inquiry has been made into sustainability of the recruitment plan, which is the source of the revenue. Each new "coach" is promised a viable opportunity to earn thousands of dollars per month – based on recruiting yet more coaches. It is that promise that generates the Medifast revenue and has catapulted the company's growth rate beyond all its competitors.

The expectation of the continued fulfillment of that promise is the foundation for Wall Street's show of confidence in Medifast. A price-to-earnings ratio that is nearly four times greater than the industry leader surely indicates Wall Street's belief in Medifast's maintaining its current rapid expansion rate.

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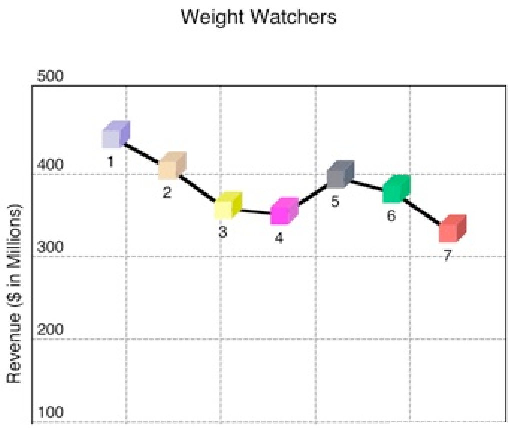
[6] The factors of delusion and denial were classically illustrated in Charles Ponzi's 1920 scam as they have manifested in all others ever since. Ponzi attracted the support of newspapers, some politicians, charities and several banks who attacked those who questioned his legitimacy. The crusading journalists and law enforcement officials who investigated Ponzi were vilified in the press. (See the excellent biography of Ponzi, "Ponzi's Scheme" by Mitchell Zuckoff, 2006, Random House.)

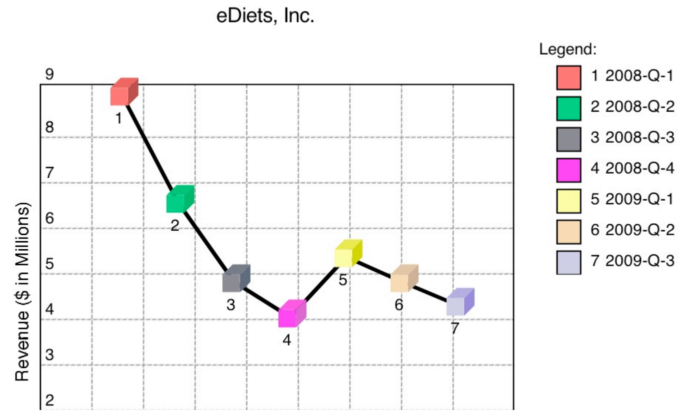
As burden of proof rests with regulators and analysts, pyramid operators adroitly hide data and operations. Medifast follows this tradition also by failing to disclose basic factors that many other multi-level marketing companies publish and some have been ordered to disclose by judges and regulators, e.g., drop-out rates, actual retail sales levels, the facts of saturation, the requirements for intense recruiting, among other indicators that expose the "endless chain" structure and its inevitable large-scale loss rates.

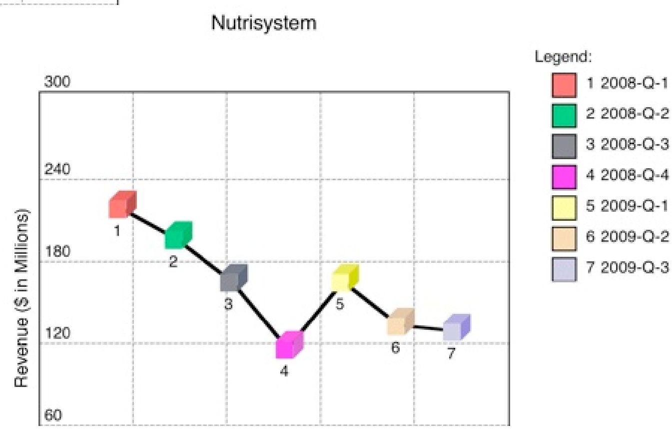
This expectation cannot be warranted as long as Medifast's growth depends on continuing its recruitment rates. While there may be a theoretical potential for Medifast to overtake Weight Watchers, it is indeed not possible to achieve this under the current model. As the base of coaches rises, the income potential for each new coach must diminish. Despite Medifast's "infinite expansion" incentive plan, the real world market for meal replacement consumers and for consumers that will invests in its "endless chain" business opportunity is indeed limited.[7]

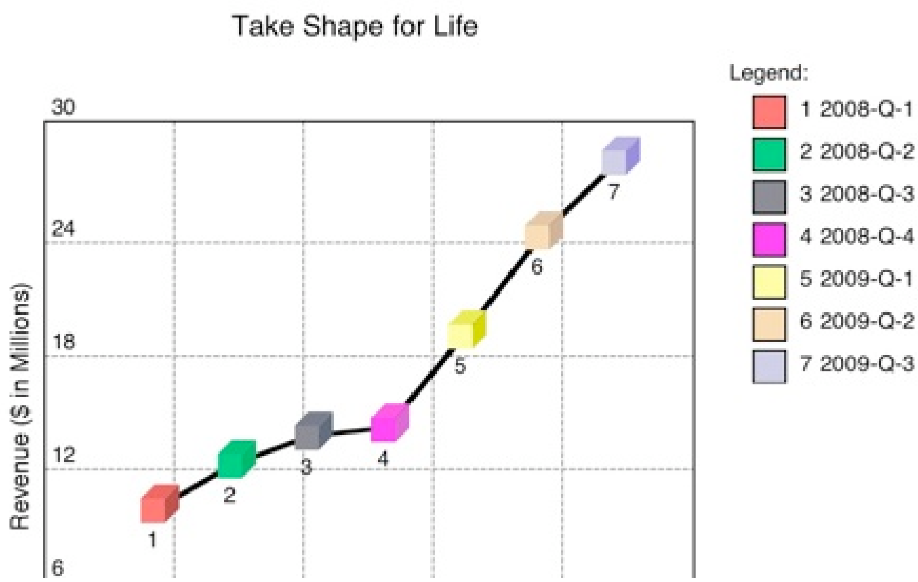
[7] The Research Report from First Research, Inc., "Industry Profile Weight Reduction Services Quarterly Update 11/2/2009" offered no indicators for significant growth for the meal replacement business. It noted that US personal income, which drives consumer ability to pay for weight reduction services, fell 2.6 percent in August 2009. Other noted challenges include minimal growth in the services sector, high drop-out rate among purchasers and high cost to acquire customers compared to costs in 2008.

Declining Revenue Trends of Main Competitors Contrasted with Take Shape f or Life's Extraordinary Growth Trend in Same Time Frame









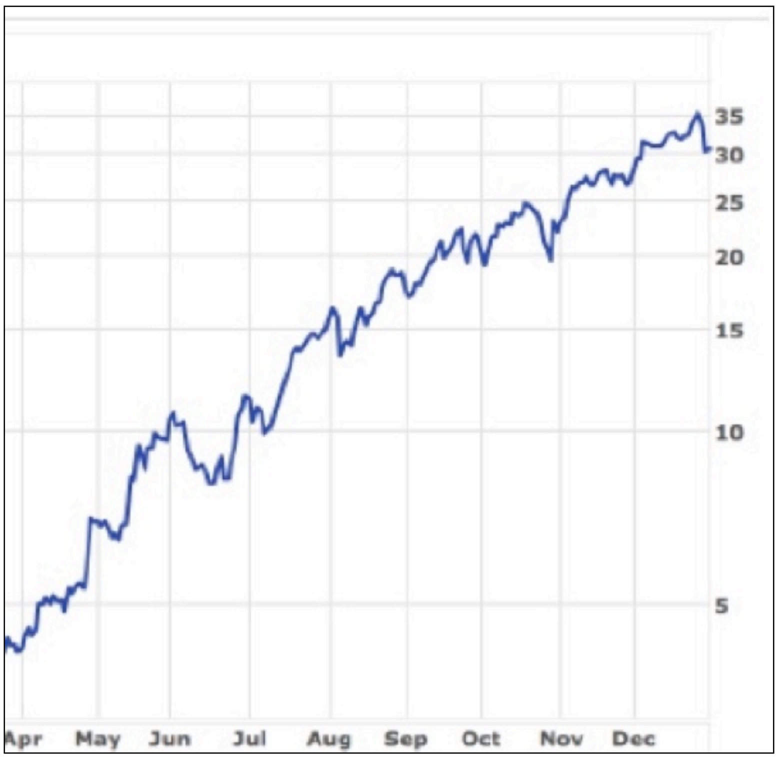
Forward Looking Stock

Revenue growth is often accompanied by shareholder price increase. Yet, Medifast's rocket-like stock rise cannot be so simply explained. Given its history of deception, the company CEO's controversial attempt to surreptitiously hype the stock, and the company's record of great price drops following its questionable rises, the current surge gives even more cause for inspection.

From the start of the 2nd quarter, 2009, Medifast stock has risen from 4.24 to an astonishing 33.23, a rise of 800% in nine months.

While stock prices are not always indicators of a company's current performance, they are, in general, considered valid indicators of future developments. Higher share price relative to current revenue or earnings indicates belief in a company's prospects for robust future growth. Lowered share prices on currently sound and profitable businesses point to Wall Street fears of looming declines.

Medifast Share Price Rise from April1, 2009 to Dec. 31, 2009



During the period of Medifast's great share price rise, Medifast's quarterly revenue has also shown strong growth but it pales in proportion to the rise in its stock value. The company now trades at 50 times its earnings, a far higher ratio than even Apple Computer's or Microsoft. Its market capitalization is approaching one-fourth that of the giant Weight Watchers, while its revenue is less than 9% of that company's.

Wall Street is obviously engaging in extremely optimistic forecasting for Medifast. How is this justified in a company that few had heard of just one year ago when the stock was in the $4 range and the credibility of which *Barron's* magazine in 2006 had questioned for falsely hyping its product and for "rampant" insider trading?[8]

[8] "Medifast's Diet Disorder: Heavy insider selling only strengthens the case against diet-food maker Medifast, which already suffers from credibility problems," by Neil A. Martin, September 4, 2006

The Mirage of Pyramid Expansion

The classic pyramid scheme pattern of expansion shows rapid, almost astonishing growth. With multiples of investors feeding money back to earlier investors, extraordinary gains are recorded by those first investors, giving the impression of a get-rich-quick opportunity for all others as well. The system appears magical in its money-producing capability. Its popularity soars.

Here is where reality metastasizes into a fateful delusion. A belief arises that the money transfer system can continue indefinitely, without regard to the limits of available investors. This is the delusion that Medifast has cultivated on Wall Street. Only arithmetic can break the spell.

Medifast has recorded a 100% increase in quarterly revenue over the course of the last four quarters in which SEC filings are available. Q-3'08 produced $13.65 million in revenue for Take Shape for Life. Q-3'09 generated $27.9 million. However, as the company clearly acknowledges in its 10-Q filings, these gains were directly tied to corresponding increases in the recruitment of coaches.

3,200 coaches produced Q-3'08's results. One year later, to double sales, the company reported 5,800 coaches. Exactly how many coaches actually were enrolled over the year is not disclosed. Most multi-level marketing companies report a 50-70% annual dropout rate. If this were applied to Take Shape for Life, the company may have used the investments and labors of as many as 7,400 coaches during the 12-month period (3,200 plus 1,600 new recruits to replace the 50% dropouts, plus another 2,600 gained to produce a net of 5,800 by the end of the year.)

Using Medifast's net figures, the data shows an inextricably bound relationship of revenue growth to coach recruitment. Coaches must increase 80% for the company to double its revenue each year. 3,200 coaches produced approximately $14 million. A year later, 5,800 coaches produced approximately $28 million.

Wall Street, which is paying 50 times earnings for Medifast share in January 2010, is clearly expecting continued growth at or near current rates. Yet, because Medifast's growth is tied to pyramid recruitment of coaches, this growth is jeopardized. The threat to Medifast's growth is due to its dependence on pyramid recruitment. The market for "coaches" is unknown but surely not "unlimited."

If Medifast were to maintain its current 100% growth rate – which has driven in its high share price – over the next five years, the coaches must be increased proportionately by 80% per year. To achieve just one-half the current rate, coaches must grow at a rate of 40%.

Medifast "Coach Growth" to Maintain Revenue Growth	At Current Rate of Revenue Growth	At One-half Current Rate
2010	10,440	8,120
2011	18,792	11,368
2012	33.826	15,915
2013	60,886	22,281
2014	109,595	31,193

It may indeed be possible for Medifast to recruit tens of thousands of new coaches, over the next several years but this could not be done *legally*. Deception would have to be employed on a large-scale to convince all new recruits that they too could all continue to recruit tens of thousands more. The myth of unlimited market expansion will be increasingly difficult to maintain.[9] No industry can expand its market base by merely authorizing more and more sales representatives, unless the "salespeople" are the prime customers. Yet, if only the salespeople consumed the goods and the company gained revenue primarily by recruiting more salespeople, the business would be likely declared a naked pyramid scheme, as other multi-level marketing schemes have been that lacked significant retail sales.

The real estate market, currently in decline, cannot be magically expanded by licensing more and more real estate brokers. Yet, Take Shape for Life's marketing program is based firmly on this very concept – more and more salespeople, despite a flat or declining market for meal replacements.

As market saturation for sales representatives grows within a product market already in decline, three developments will occur, and may already be underway at Medifast:

1. The growth rate of coaches must eventually slow considerably.
2. In reaction to the declining enrollments, intensified recruiting with bonuses and other rewards will be undertaken, but these efforts will not produce the corresponding revenue growth that it had historically. Between Q-1'09 and Q-2'09, TSLF increased its revenue by more than $7,800 for each new coach it reportedly gained. Yet, from Q-2'09 to Q-3'09 each new coach that the company netted produced less than a $4,000 increase in company revenue, the lowest net gain in revenue per new coach in the last six quarters. This decline in revenue per new coach may fluctuate but will eventually settle into an unalterable pattern.
3. A larger proportion of total revenue will eventually begin to come directly from the salespeople themselves, rather than from retail customers. This pattern can be seen clearly in one other publicly traded multi-level marketing company with many similarities to Medifast, Pre-Paid Legal.[10]

Two realities intrude into Medifast's cultivated Wall Street myth of long term expansion at today's current rates of growth.

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[9] The real world limits of this market are shown in First Research, Inc.'s study, "Industry Profile Weight Reduction Services Quarterly Update 11/2/2009." It estimates the total US market at $2 billion This includes revenue from program fees, food supplements, and other merchandise sales related to diet and weight reduction as well as real food, which Take Shape for Life markets. Food and other merchandise sales account for about 40 percent. Typical meal replacement customers spend about $100 a week and stay on the programs about 11 weeks.

[10] Pre-Paid Legal (NYSE: PPD), like Medifast, charges a fee to become a salesperson and then rewards the salespeople to recruit more new salespeople. Average sales per salesperson is about 4 customers (Medifast does not disclose actual retail sales ratios but that number is probably comparable). Prices for its services are the same for retail customers as for the salespeople, as they are at Medifast. Pre-Paid also enjoyed rocket-like growth as Medifast is now. Then, sales and recruiting ebbed, followed by recent gains in recruiting as the Recession worsened, as at Medifast. In 2009, the pattern of generating revenue more and more from recruiting salespeople, with the lure of income over product sales, has become fixed at Pre-Paid Legal. For the year 2009, enrollments of salespeople grew 52.2% while the customer base decreased about 1.0%. The number of salespeople enrolled during the year was three times that of the retail customers. Since the sales people are also customers – as is also true at Medifast – the Pre-Paid data for Q-4'09 show that the number of salespeople recruited accounted for over 300% of the increase in sales.

1. The market for health coaches is limited more so than the total market for meal replacement customers. To grow market share, TSFL must continue to make the case to all new coaches that they can always recruit an unlimited number of new coaches.
2. Under the Medifast's chain letter pay plan, the great majority of the coaches can *never* reach the tantalizing income lures that are used in Take Shape for Life's promotion. A typical web-based solicitation[11] makes the often repeated statement, "The average Health Coach at the Executive level makes about $3,000 per month supporting roughly 30 people. It goes up from there."

   This statement omits the crucial fact that Executive Level coaches constitute only 6% of the entire organization. They and those "up from there" are in the top echelon, with at least 90% of all other coaches below them. The incomes of the top 10% of executives exist only if there are 90% below. Recruiting more coaches is required to achieve Executive level. For every new "Executive Level" coach there must be a corresponding growth of 90 more coaches below.

History Repeating Itself

Barron's Magazine singled out Medifast in 2006 for one unusual characteristic, its uncannily sudden rises followed drops in share pricing.

- It noted that in 2003, shares shot from 3.79 to 18 and then soon went back to below 3.
- Then, in 2005, shares surged by nearly 600% to a high of 21, then fell down to 12. In those cases, the surges were driven by hype about a new system of generating sales leads and a supposed medical breakthrough. Neither proved to be substantive or sustainable.
- In 2006 Medifast shares went from a low of about 5 to over 21 and then down again to 8.
- 2007 shares ranged from a high to 13, falling to more than 50% to about 6 and then another surge of 50% upward to 9 and falling back to 4.
- 2009's 800% stock surge is now based on Medifast's use of the pyramid recruitment model in its Take Shape for Life Division. The surge coincides with the deepening Recession and follows the pattern of sudden growth in salespeople – who are also customers – among other pyramid selling schemes.

Unlike other multi-level marketing schemes, Medifast has key limitations. Its market is not universal. It is limited to those who suffer from weight problems and are able and willing to pay thousands of dollars on meal replacement regimens. Its salespeople cannot enroll just anyone they meet in grocery stores, such as Amway's reps famously do. The market for meal replacements is defined and the number of people who could possibly gain a profit from endlessly recruiting other salespeople into this field has severe limits.

Those limits will be reached in due time. Its current revenue growth, as a basis for its extraordinary 800% rise in share price, is as unsustainable as the previous sparks that ignited share price rises and were similarly hyped.

[11] See http://www.getyouhealth.com/medifast-healthCoach.asp

Analysis of Take Shape for Life's Official Income Disclosure Statement

Active Health Coach Ranks	Number of Active Coaches in Rank	% of "Active" Health Coaches by Rank	Avg. Monthly Commission by Rank	Total Dollars Paid to all "Active" Coaches in Each Rank per month	% of Total Commissions Paid to Each Rank per Month
Presidential Director	12	0.20%	$48,241.09	$578,893	11.77%
Global Director	27	0.47%	$16,747.18	$452,174	9.19%
National Director	35	0.61%	$9,546.78	$334,137	6.79%
Total for Top of Pyramid	74	1% (rounded)	$18,449	$1,365.204	28% (rounded)
Regional Director	172	2.97%	$4,435.17	$762,849	15.51%
Executive Director	366	6.31%	$3,253.26	$1,190,693	24.21%
Director	63	1.09%	$1,919.41	$120,923	2.46%
Associate Director	171	2.95%	$1,438.38	$245,963	5.00%
Manager	294	5.07%	$897.93	$263,991	5.37
Total for Upper Level Recruiters	1,066	19% (rounded)	$2,424	$2,584,419	52% (rounded)
Senior Coach	1,695	29.23%	$402.86	$682,848	13.88%
Fast Track Coach	2,544	43.86%	$99.90	$254,146	5.17%
Health Coach	421	7.25%	$76.83	$32,345	0.66%
Total for Bottom Level Coaches	4,660	80% (rounded)	$208	$969,339	20% (rounded)
Total for all Groups	5800	100%		$4,918,962.00	100%

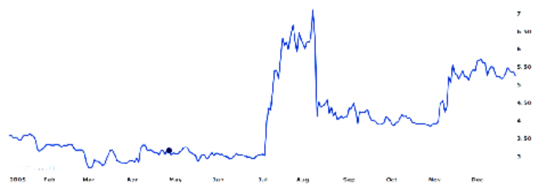
- Top 1% (1.28) receive 28% of all commissions
- Top 4% (4.25) receive 43% of all commission
- Top 10% (10.56) receive 67% of all commissions
- Bottom 50% (51.11) receive 6% of all commissions

Note:

- Raw data for this analysis is posted on the Take Shape for Life website at http://www.tsfl.com/IDS.pdf
- The company disclosure uses a time frame of the first six months of 2009. It offers average dollar figures and percentages of "active" coaches at each level, but it does not apply the data to actual numbers of coaches involved. Medifast does not disclose churn rates of coaches or average tenure of coaches, or the number of "inactive" coaches, (those that do not earn at least $25). It is therefore not known how many coaches fail to make any sales at all, but paid in fees and purchased goods and generated commissions for the other coaches.
- If inactive coaches were disclosed, percentages per level would be adjusted downward to reflect the larger size of sales force, and overall average incomes of coaches would be degraded to include those who made no income at all.
- Without hard data on the true number of coaches enrolled over time, it is also not known how much of Take Shape for Life's total revenue is attributable to the direct purchases and fee payments of coaches.
- This analysis applied the percentages and monthly averages to the last total number of "active" coaches disclosed by Medifast: 5,800 at the end of Q-3'09.

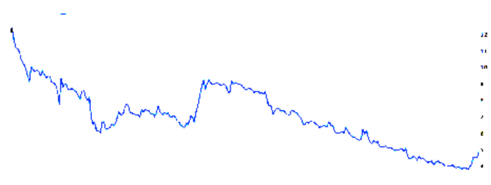
Medifast's Volatile Stock Performance

2005

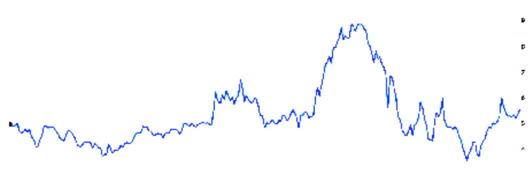


2006

2007



2008



2009