MEDIFAST®

Solid Foundation for Solid Growth

2003 Annual Report

As we look to the future and reflect upon our success, we continue to focus Medifast's efforts on providing safe and effective nutritional solutions for weight and disease management.

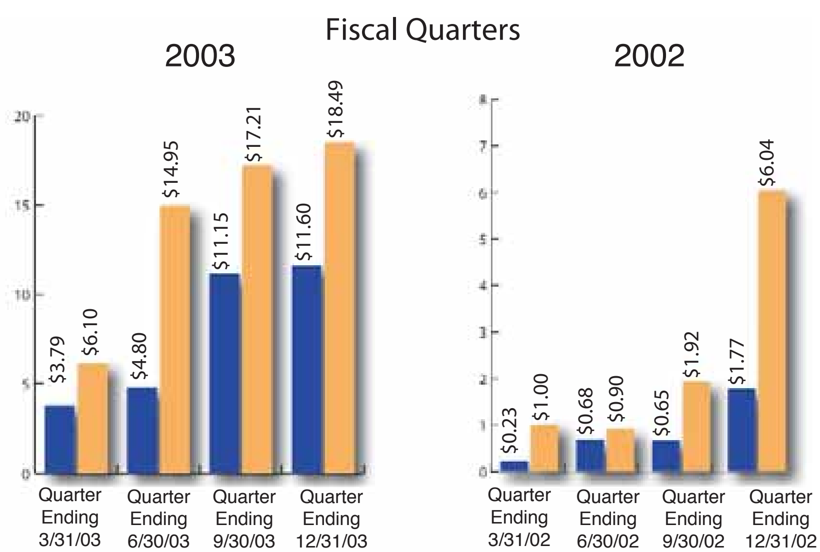
Medifast products are manufactured in a food and pharmaceutical grade, FDA inspected facility in Owings Mills, MD.

Common Stock Information

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

There were 7,315 beneficial holders of the Company's Common Stock, as of November 5, 2003.

No dividends on Common Stock were declared by the Company during 2003 or 2002.



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 American Stock Exchange.

Over 20 years of growth. A brief history of Medifast.

Led by former Marine Colonel Bradley T. MacDonald, 56, Maryland-based Medifast, Inc. is focused on becoming the leader in innovative, great tasting, soy-based medical meal replacement products. MacDonald has successfully repositioned the Company to focus on the growing epidemic of obesity and the development, manufacturing and distribution of consumable health, disease management and diet product lines under the Medifast® brand. The efforts are primarily directed toward penetrating the growing $6.4 billion meal replacement market.

Medifast's operations are primarily conducted through two wholly owned subsidiaries, Jason Pharmaceuticals, Inc. and Take Shape for Life, Inc.

William Vitale, MD, founded Jason Pharmaceuticals, Inc. in 1980. This subsidiary's primary focus is the development, manufacturing and distribution of the Medifast program and Medifast products. Medifast is a medically supervised weight loss program, which specializes in multidisciplinary patient education programs and uses the highest quality meal replacement supplements. Medifast offers a wide spectrum of weight management options depending on the amount of weight one has to lose. Unlike other diets, Medifast provides life changing behavior modification programs and products that provide support through weight loss and weight maintenance. The Medifast program teaches how to lose weight and keep it off for life.

Jason Pharmaceuticals is proud of the Medifast brand, which has been recommended by over 15,000 physicians nationwide and used by more than 1,000,000 overweight customers. Medifast offers more than 50 years combined knowledge and experience with world-class customer service, technical and medical support. Medifast products are manufactured to exacting specifications in our state-of-the-art production facility in Owings Mills, Maryland. Product labeling, quality, control, manufacturing processes and equipment are subject to regulations and inspections mandated by the Food & Drug Administration (FDA), Maryland State Department of Health and Hygiene and Baltimore County Department of Health. Our plant strictly adheres to all Good Manufacturing Practices and has proudly maintained its status as an "OU" (Orthodox Union) Kosher-approved facility.

The Take Shape for Life, Inc subsidiary is a health network that since August 2002 has enrolled over 150 physicians and medical professionals to supervise a network of qualified Health Advisors. For more information about Take Shape for Life, please visit www.tsfl.com.

1980

Medifast is founded by Dr. William Vitale.

1989

Medifast begins using soy as the main source of protein in its meal replacements, because of clinical data favoring “vegetable” over “animal” proteins.

1996

Medifast® and Take Shape® meal replacement programs are selected to be used in a study on obesity conducted by the National Institutes of Health.

1999

The Food & Drug Administration authorizes the use of health claims about the role of soy protein in reducing the risk of coronary heart disease.

2001

Medifast introduces Hearty Apple Cinnamon Oatmeal, Chicken Flavored Noodle Soup and Peach Iced Tea.

2002

Medifast launches new disease and condition management products focused on arthritis, coronary health and menopause.

Medifast is listed on the American Stock Exchange (MED).

2003

Medifast officially launches Take Shape for Life, Inc., a network of health professionals who provide physician supervised weight and disease management and fitness programs across the country.

Medifast acquires Consumers Choice Systems, which markets the brand Woman’s Wellbeing®.

To Our Shareholders

2003 was a phenomenal year for Medifast, Inc. Our passion has always been to improve the lives of our customers by providing sound nutritional solutions to combat obesity, diabetes, arthritis, and coronary health and the associated diseases. That is exactly what we are doing as we continue to focus on the fundamentals of weight and disease management through nutritional intervention.

An Industry Leader

Despite increased public concern, the number of overweight and obese Americans has continued to climb to epidemic proportions. In 1990, about 60 percent of American adults were overweight of which about 20 percent were obese. By 2000, that number had climbed to 64 percent being overweight, including about 30 percent who were obese. The Company's forward momentum in product development has positioned us as a leader in the medical meal replacement and clinical weight maintenance industry. What separates Medifast from other companies that offer weight loss products and programs is the Company's clinically proven approach to weight loss and long-term weight maintenance.

Focused on Infrastructure and Growth

Our business has three main components – production, manufacturing and distribution. In mid-September, the Company completed the purchase of a 119,000 square foot distribution facility in Ridgley, Maryland, which management believes is a fundamental step in further developing the resources the Company needs to support the expected growth in years to come. The infrastructure is in place for the Company to generate up to $200 million in sales with the addition of the new distribution facility.

Additionally, the Company bolstered its Executive Management staff to include in-house Legal Counsel and Corporate Vice Presidents. We hired seasoned talent from outside the Company, as we centralized our core functions in sales and marketing, operations and information technology.

Tapping the Diabetic Industry and Building Intellectual Property

In early 2002, the Johns Hopkins University Bloomberg School of Public Health Clinic began a two-year study to evaluate the efficacy of our dosage-controlled, engineered food, Medifast Plus for Diabetics® compared to basic nutrition recommendations by the American Diabetes Association (ADA). Preliminary results show that participants using the patented Medifast Plus for Diabetics product lost twice as much weight as those following the ADA's guidelines. In addition to weight loss, the initial study results show that Medifast participants sustained an average 9% decrease in blood fasting glucose and an average 19% decrease in insulin levels.

We believe the results of this trial will show that the majority of patients who were dependent on various drugs to regulate diabetes will be able to reduce dosages or be completely off their medications after going on the Medifast program. Given that approximately $9 billion is spent on medication for type II diabetes, management believes that once the final results of the clinical study are published showing the enormous cost savings and health benefits, the Diabetic line will have the potential to make serious headway in the market. Additionally, the Medifast Plus for Diabetics line of meal replacement shakes are officially patented by the United States Patent and Trademark Office, providing an even more competitive advantage for the Company.

Tackling Adolescent Obesity

Throughout 2003, the Company expanded the product line of its cutting-edge adolescent weight management program, Fit! by Medifast® with the intention of penetrating the overweight adolescent market. The Company believes this market represents a ripe and potentially lucrative market opportunity. In addition, the Company has begun a ground-breaking clinical study with the Johns Hopkins Bloomberg School of Public Health, to prove the effectiveness of Fit! by Medifast meal replacement products in controlling calories and weight in adolescents.

Partnerships

The Company continues to exploit significant opportunities to grow the business. In 2003, the Company partnered with NovaCare Rehabilitation to combat obesity through NovaCare's chain of over 200 centers. The Company has also formed an alliance with Hi-Tech Pharmacal to develop and produce retail diabetic meal replacement products. Additionally, the Company expanded the distribution of its Woman's Wellbeing line through a distribution agreement with Amazon.com.

In March 2004, the Company signed a joint venture agreement with XL Health, Inc., one of the leading diabetes management companies in the United States. The Company's clinically tested Medifast Plus for Diabetics line will be the exclusive nutritional product offered for XL Health's CMS Medicare Demonstration Project to provide Diabetes, Congestive Heart Failure (CHF) and Coronary Artery Disease (CAD) disease management and pharmacy benefits to over 10,000 Medicare Fee-For-Service patients in Texas. The Demonstration Project is the largest of its kind ever conducted by CMS. Medifast has also obtained the exclusive rights to secure and implement a similar program to manage dependent diabetics in the Department of Defense as part of the partnership with XL Health.

Your management team desires to develop new marketing relationships with third parties that have existing relationships within the medical community, in an effort to reach the significant population of Americans who need nutritional disease management solutions and to secure international distribution in Europe and Asia.

Building our Business

In 2003, the Company acquired Hi-Energy Weight Control Centers, a national company specializing in weight management programs, with licensed weight loss centers in over 50 locations. Hi-Energy Centers offer a competitive marketing edge through a regional advertising program, exclusive territories and marketing support. The Company intends to increase the number of licensed and corporately owned centers to over 125 nationwide by year-end 2004, while introducing new disease management product lines in each Center. The Company also plans to promote its existing MEDSLIM clinics so physicians can provide enhanced medical support and oversight to their patients to attain maximum results.

In mid June, the Company completed the asset acquisition of Consumer Choice Systems (CCS). CCS is a retail distribution company focused on high quality, innovative products for women. CCS products, under the Woman's Wellbeing® brand, include supplements addressing menopause relief, regularity, coronary health and joint health, as well as products addressing the detection, prevention and relief of urinary tract and bladder infections. CCS products are currently distributed in over 18,000 retail outlets nationwide. The CCS business is supported by a website and toll-free customer service line where customers can inquire about product information and retail availability. The Woman's Wellbeing® line is the Company's only product line that is offered through the retail sales channel.

2003 Financial Highlights

Medifast revenues grew substantially in 2003. The Company more than doubled revenues to $25.4 million, an increase of 106% versus $12.3 million in 2002. This was primarily driven by our aggressive advertising campaign and our Take Shape for Life Health Network adding many new qualified Health Advisors. Stockholders equity improved to $17.1 million versus $5.6 million in 2002. In addition, the value of Medifast stock grew 165% during the year.

On Track for Success

As we look to the future and reflect upon our success, we continue to focus Medifast's efforts on providing safe and effective nutritional solutions for weight and disease management. We are determined to become the leader in the weight and disease management industry. I am proud of our accomplishments during 2003 and thank our customers, employees, vendors and you, our shareholders, for your continuing support.

Warmest Regards,

Bradley T. MacDonald
Chief Executive Officer and
Chairman of the Board

Sunrise Distributing
A 119,000 square foot distribution facility in Ridgley, Maryland was purchased in 2003.

Distribution and Manufacturing

Over the last year, the Company has been focused on developing the infrastructure to support its anticipated growth. Specifically, the Company invested in improvements to its manufacturing facility and distribution capability by adding new lines of equipment and purchasing a new distribution facility. The Company is confident these investments will improve operations and processes while making the Company more efficient and dynamic.

Jason Pharmaceuticals, Inc., the Company's wholly owned manufacturing subsidiary, operates in a 49,000 square foot state-of-the-art food and pharmaceutical-grade facility in Owings Mills, Maryland. Since the purchase of a nutritional bar production line in 2003, the Company is able to produce over 95% of its clinically proven meal replacement supplements in-house.

The Company's new 119,000 square foot distribution facility, Sunrise Distributing in Ridgley, Maryland is about 80 miles from the Owings Mills manufacturing facility. In addition to distributing Medifast clinically proven meal replacement foods, the facility is also used for the storage and distribution of the Company's Woman's Wellbeing line of women's health products to physicians, patients, health advisors and retail drug stores. Currently the Company fills over 1,000 packages per day but has the capacity to expand its operations as needed. Since the transition, the Company's operations have significantly improved while its distribution errors have greatly declined. The Company attributes these improvements to the acquisition of the assets and management expertise of a 15-year-old distributor who coordinates the operations of the facility. Additionally, the Company has added multiple quality assurance processes to ensure customer satisfaction.

The formulation, processing, packaging, labeling and advertising of the Company's products are subject to regulation by several federal agencies, including the Food and Drug Administration (FDA). The Company must comply with the standards, labeling and packaging requirements imposed by the FDA for the marketing and sale of medical foods, vitamins and nutritional products. The FDA also requires "medical food" labeling to list the name and quantity of each ingredient and identify the product as a "weight management, modified fasting or fasting supplement" in the labeling.

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. Medifast's products are manufactured and packaged in accordance with customer specifications and sold under private labels both domestically and in foreign countries through their own distribution channels.

The manufacturing facility strictly adheres to all Good Manufacturing Practices and has maintained its status as an "OU" (Orthodox Union) Kosher-approved facility. The manufacturing facility has the capability for massive increases to its production output with minimal capital expenditures. The company is presently operating on only one single shift. Adding one additional shift, along with minimal machinery expenses, would enable the Company to produce enough products to generate over $200 million in sales.

Medifast nutritional products are formulated with only the highest quality ingredients.

Research and Product Development

Medically supervised, low calorie diets are making a comeback, 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 and conditions such as diabetes, coronary health, menopause and arthritis.

Medifast is a medically supervised weight management program, which specializes in multidisciplinary patient education programs using the highest quality meal replacement supplements. Medifast's core programs and products have grown to include disease management and sports performance products. Medifast is particularly focused on disease management with a complete line of clinically tested supplements for Diabetics. In addition the company has developed specialty products to combat a variety of diseases and conditions through nutritional therapy. These products include, Medifast Plus® for Women's Health, Medifast Plus® for Joint Health and Medifast Plus® for Coronary Health. Medifast is focusing on clinical sports nutrition with two gender specific bio-engineered foods specially designed for athletes, Take Shape™ Women's Sports Drink and Take Shape™ Bio-engineered Food for men.

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.

Medifast nutritional products are formulated with high-quality, low-calorie, low-fat ingredients. Many Medifast products are soy based and contain 24 essential vitamins and minerals, as well as other nutrients essential for good health. The Company uses DuPont Protein Technologies' Solae® brand soy protein, which is a high-quality complete protein derived from soybeans.

Management's mission is to position the company as the leader in the field of medically supervised health related nutrition programs.

The Fit! drink box and bars were created to help kids eat better and get the nutrition that their growing bodies need.

Fit! ®

Approximately 30 percent of adolescents (ages 6 to 19) are overweight and 15.5 percent are obese. Medifast recognizes the danger of this trend and has developed an entire line of low calorie, power-packed meal replacements specially formulated to help children stay healthy, maintain good nutrition and even manage weight.

Fit! is a revolutionary line of great tasting, soy-based food supplements formulated specially to meet the nutritional needs of adolescents. Each product is a first-rate substitute for sugar-rich candies and other fattening, unhealthy foods that appeal to adolescents. Fit! foods not only give adolescents adequate calories but also provide them with up to 65 percent of the RDA (Recommended Daily Allowance) requirements for 24 essential vitamins and minerals per serving, are high in potassium and calcium, naturally sweetened, low in lactose and cholesterol free. These products receive the FDA's Healthy Heart claim "may reduce the risk of heart disease," because they contain more than 6.25 grams of soy protein per serving. Fit! has up to 35 percent RDA of calcium and 50 percent RDA of magnesium; two minerals that are important for proper bone growth and nervous system development. Fit! was originally launched with a chocolate ready-to-drink shake and chocolate and peanut butter bars, but the line has expanded to include Chocolate, Vanilla and Creamsicle Shakes, Chocolate Mint and Oatmeal Raisin Bars, Hot Cocoa with marshmallows, Chicken Noodle Soup, Vanilla Berry Oatmeal and Chocolate Pudding.

Health Accessories

Medifast added a supply of easy-to-use health accessories to our expanding product line. Marketed under the Take Shape™ brand, the line includes a digital oral thermometer, a digital ear thermometer, a blood pressure monitor, a body composition analyzer and a digital scale. Each accessory provides our customers with the option to monitor their progress from the comfort and privacy of their home.

2003 Products

Chocolate Pudding

The end of 2003 brought Medifast's newest tasty meal replacement alternative, Chocolate Pudding. The 110-calorie soy based meal replacement is certified Kosher Dairy by the Orthodox Union and is low in lactose. One serving of Pudding contains up to 60 percent of 24 essential vitamins and minerals as well as 14 grams of protein.

Coronary Health

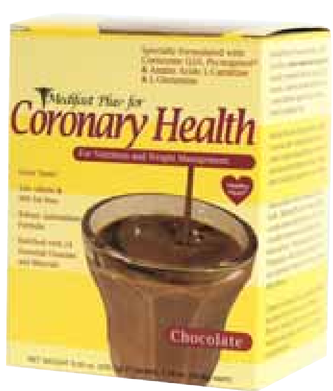
The latest addition to Medifast's line of disease management products, Medifast Plus for Coronary Health, is a safe and effective meal replacement supplement specially formulated to protect against heart disease. Formulated with the highest quality nutrients, vitamins and minerals, including nine grams of soy protein per serving, each shake provides a natural defense against heart conditions brought about by improper diets. Medifast Plus for Coronary Health contains Coenzyme Q10, a nutrient which has been shown in studies to reduce plaque deposits in the arteries and reduce the incidences of plaque rupture, both of which are precursors to heart attacks. Each shake contains amino acids, which prevent fatty build-up in the heart and liver. This product also features Pycnogenol®, which has been shown to act as an antioxidant and as the body's first line of defense against heart disease.

Minestrone Soup

This great-tasting 110-calorie soy based meal replacement is another high quality addition to our clinically proven replacement food choices. Loaded with hearty vegetables, each bowl is cholesterol free and has only 1 gram of fat. One serving of Minestrone soup contains up to 55 percent of the RDA requirements for 24 essential vitamins and minerals, which helps ensure a healthy, nutritious diet.

Raspberry Tea

Further developing the flavors of our products, Medifast released Raspberry Iced Tea, an exciting new flavor similar to our popular Peach Tea. This fat-free, cholesterol-free, soy based, high protein drink is a refreshing substitute for other supplements. Each drink provides up to 100 percent of the RDA requirements for 24 essential vitamins and minerals and is formulated with 14 grams of protein.



Consumers Choice Systems

Medifast took ownership of the Woman's Wellbeing® brand with the asset acquisition of CCS in July 2003. Medifast expanded its vast product line. The UTI line offers complete prevention, detection and relief products for urinary tract infections. UTI Cranberry Plus Blueberry provides concentrate of cranberry and blueberry, which have been shown in studies to help prevent the occurrence of UTIs. UTI Test Kits provide both protein and nitrite tests to allow individuals to test for a urinary tract infection in the comfort of their own homes. UTI Relief® contains 97.2 mg of phenazopyridine hydrochloride, the #1 doctor recommended ingredient for relieving the symptoms of UTIs. Since the acquisition, CCS has developed test sticks to replace the test kits, providing a more convenient, easy-to-use method for testing for UTIs. This unique and revolutionary design separates the product from anything else on the market and is as simple to use as a pregnancy test.

The Woman's Wellbeing line boasts Menopause Relief® Pills, with soy protein isoflavones and red clover to help reduce the symptoms of menopause such as hot flashes, night sweats and irritability. The line also contains Woman's Wellbeing Personal Cream Lubricant, a non-sticky, long-lasting moisturizing lubricant to restore the moisture a woman may lose as a result of menopause, other conditions, and certain medication. In October, the Company launched four disease management shakes under the Woman's Wellbeing brand: Coronary Health, Comfort & Regularity, Joint Health and Menopause Relief.

Our goal is to provide education and solutions for women's health and wellness issues.

Clinically Proven

Medifast® products have been proven to be effective for weight and disease management in clinical studies conducted by the U.S. Government and Johns Hopkins University.

In early 2002, The Johns Hopkins Bloomberg School of Public Health Nutrition and Health Research Clinic began a two-year study to evaluate the efficacy of the dosage controlled, engineered food, Medifast Plus® for Diabetics compared to basic nutrition recommendations by the American Diabetes Association (ADA). Preliminary results show that participants using Medifast Plus for Diabetics lost twice as much weight as those following the ADA's guidelines. Additionally, two-thirds of those on the Medifast program lost at least 5 percent of their weight, which is a standard measure of the FDA's threshold to indicate clinically significant weight loss, versus one-quarter of those on the ADA diet. In addition to weight loss, the initial study results are that Medifast participants sustained an average 9 percent decrease in blood fasting glucose and an average 19 percent decrease in insulin levels. Final study results are expected in December 2004.

Preliminary study results show:

- 19% Decrease in Insulin
- 12% Decrease in Fasting Triglycerides
- 10% Decrease in Blood Glucose
- 27% Increase in Quality of Life
- 9% Increase in HDL (good) cholesterol
- 7.5% Decrease in Body Fat
- 8% Decrease in Blood Pressure

JOHNS HOPKINS BLOOMBERG SCHOOL of PUBLIC HEALTH

Medifast products are clinically proven, physician recommended meal replacements.

The Company announced a ground-breaking Urban Obesity Study with Coppin State College in Baltimore, Maryland. The 68-week study, headed by the Coppin State School of Nursing, will test the efficacy and healthcare cost savings of Medifast engineered dosage-controlled meal replacement supplements in the urban community. The Company is also initiating a clinical study with Johns Hopkins Bloomberg School of Public Health in Baltimore, Maryland to test the efficacy of Medifast meal replacements versus a standard reference diet on weight loss and weight maintenance in a joint parent-child plan approach. The 18-month study will consist of 80 overweight or obese boys and girls between the ages of 8 and 15 and 40 of their parents. The principal investigator and Johns Hopkins study examiner, Dr. Lawrence Cheskin, is interested in whether a joint parent-child approach using Medifast engineered foods will result in greater weight loss than children dieting alone.

Major enhancements were made to the Company's call center and order taking operations.

Markets and Competition

According to a recent market data study, consumers spend about $39 billion per year trying to lose weight or prevent weight gain. This figure includes spending on diet sodas, diet foods, artificially sweetened products, appetite suppressants, diet books, videos and cassettes, medically supervised and commercial programs and fitness clubs. The weight loss meal replacement supplement market grew by over 9 percent in 2003, and currently accounts for $6.4 billion of the U.S weight loss market according to a recent market research study.

Obesity is a complex condition, one with serious social and psychological dimensions, that affects virtually all ages and socioeconomic groups. According to the Centers for Disease Control (CDC), roughly two-thirds of the U.S. adult population is overweight and of that, one-third is obese. Approximately 15 percent of children ages 6-19 are obese. Researchers at RTI International and the CDC have estimated that obesity-attributable medical expenditures reached $75 billion in 2003. Obesity is reaching epidemic levels and is a major contributor to the global burden of chronic disease and disability. The overweight and obese have a large risk for serious diet-related chronic diseases, including type II diabetes, cardiovascular disease, hypertension and stroke, depression and certain forms of cancer.

Our Business Model - Medifast's current business model incorporates four channels of distribution.

The Medifast Lifestyles® Program - This program is a medically supported network of health care professionals who support patients on the Medifast program. Patients order products directly from Medifast's website (medifastdiet.com) or toll-free number. The Lifestyles practitioner ensures that each individual receives personalized attention throughout the weight loss program. Management estimates that more than 15,000 physicians nationwide have used Medifast as a treatment for their overweight patients since 1980, and that an estimated 1 million patients have used its products to lose and maintain their weight.

These in-house qualified medical practitioners coordinate supervision of the Medifast program with the patient's primary care physician. Customers have access to qualified medical practitioners for program support and advice by calling a toll-free telephone help line or by e-mail. Medifast provides extensive program support materials on Medifast products and programs, which are placed free of charge in customer orders, in addition to being provided on the Company's website.

Take Shape for Life™ - This program is a comprehensive, medically supervised health network designed to assist in long-term weight loss and disease and lifestyle management. The program features Medifast weight and disease management products, along with a team of physician led personal Health Advisors, to support the individual through their weight and or disease management program.

Program entrants are encouraged to consult with their primary care physician and Take

Shape for Life Health Advisor for screening purposes. Physician directed Health Advisors are supported, educated and qualified by The Health Institute, a dedicated training institute staffed by Medifast professionals. Health Advisors obtain qualification based upon a testing of their knowledge of Medifast and the Medifast product line.

The Company has developed a Tasting program, which is similar to a home-based party model for introducing new customers to the Medifast program. Health Advisors recruit program entrants and provide them with program guidance, Medifast product samples and the opportunity to order products. Additionally, management plans for a very rapid expansion of this program through lead generation created by the Company's marketing and recruiting efforts.

Physicians and Clinics - Many Medifast physicians choose to implement the Medifast program within their practice. These physicians carry an inventory of Medifast products and resell them to patients. They also provide appropriate testing, medical support and evaluations for patients on the program. The Company implemented the MEDSLIM® Program in 2002, which allows licensing opportunities for its medically prescribed weight management program.

In 2003, the Company acquired Hi-Energy Weight Control® Centers, a national company specializing in weight management programs, with weight loss centers in over 50 locations. Hi-Energy Centers offer a competitive marketing edge through a regional advertising program, exclusive territories and marketing support. The Company intends to increase the number of licensed and corporately owned clinics to over 125 nationwide by year-end 2004, while introducing new disease management product lines in each clinic. The Company also plans to promote its existing MEDSLIM clinics so that physicians can provide clinically proven products, programs and protocols to attain maximum results.

Consumer Choice Systems - Founded in March 1996, and assets acquired by Medifast in 2003, CCS is a retail distribution company focusing on high quality, innovative products for women. CCS products, under the Woman's Wellbeing brand, include supplements addressing menopause relief, regularity, coronary health and joint health, as well as products addressing the detection, prevention and relief urinary tract and bladder infections. CCS products are currently distributed in over 18,000 retail outlets nationwide. The CCS business is supported by a website and toll-free customer service line where customers can inquire about product information and retail availability.

Competition and Risk - The most significant competition for meal replacements is individuals' do-it-yourself diet plans. A recent Gallup study found that 71 percent of people attempting a diet did so on their own. In view of the fact that such plans generally fall well short of their goals, this high level of do-it-yourself activity presents a significant marketing opportunity for the meal replacement industry. In this respect, the Company's weight management/diet control is subject to seasonality. Traditionally the holiday season (November/December) of each year are considered poor for diet control products and services. January and February generally show increases in sales.

The meal replacement business is dominated primarily by SlimFast® Foods Company (Unilever), which has a strong foothold in retail markets. Medifast management estimates that SlimFast® retail sales are running at a $1 billion annual rate. SlimFast® products generally have higher caloric and sugar content than comparative Medifast® products. Dr. Phil's Shape Up! was introduced into the retail market in 2003. The line of apple and pear body type nutritional supplements consists of shakes and bars, with a nutritional profile similar to SlimFast®. Unlike other meal replacement programs, Shape Up! Claims that different body shapes require different weight loss approaches.

Weight Watchers International and Jenny Craig, Inc. (privately held) sell low-calorie, prepackaged meals and focus on the benefits of portion control. Weight Watchers helps to generate demand for its products and "winning points" program by hosting pay-as-you-go meetings.

There are only a few competitors making use of medical liquid meal replacements or weight management products. These companies include OptiFast (Novartis

Nutrition Corporation) and Robards, Inc. (Food Sciences Corporation, Inc.)

Recently, there has been increased publicity and controversy about the benefits and efficacy of high protein, low carbohydrate diets, similar to Atkins, causing considerable confusion and debate amongst dieters. According to the American Dietetic Association, these diets tend to be low in calcium, fiber and other essential vitamins and minerals. An industry report published by Adams, Harkness and Hill, finds the demand for "low carb" diets is steady increasing, but believes the long-term trend will focus on carbohydrate control and balance.

Medifast has a significant advantage over its competition because it has been on the cutting edge of product development with soy protein and weight management products since 1989. Medifast products are formulated with high-quality, low-calorie, low-fat ingredients that provide alternatives to fad diets or medicinal weight loss remedies. The Medifast® brand has been clinically tested and proven at Johns Hopkins University and has been safely and effectively used in its weight management center for over 15 years.

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.

The FDA also requires "medical food" labeling to list the name and quantity of each ingredient and identify the product as a "weight management/modified fasting or fasting supplement" in the labeling.

The Company, like other producers and distributors of products that are ingested, 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 supplier 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. Additionally, the Company maintains directors and officers liability insurance in order to attract "high quality and experienced" directors and officers.

Legal Proceedings - On June 10, 2003, Medifast, Inc. and Jason Pharmaceuticals, Inc. filed a Complaint for Damages, Injunctive Relief and Determination of Discharge ability against John A. Sankey in the U.S. Bankruptcy Court for the District of Alaska. The Defendant, who trades under the name, "Diet–Fast," and who also owns Wellness Institute of Alaska, Inc., was at one time a distributor of Medifast products, but the Company terminated the distributorship contract. Nevertheless, the Defendant continued to utilize Medifast trademarks and service marks in violation of said contract. On December 3, 2003, the parties entered into an Agreement for Settlement whereby the Defendant would cease using all trademarks and service marks of the Company. The court approved the Settlement on February 2, 2004.

On August 21, 2002 Food Sciences Corporation, Inc. trading as Robard Corporation, a competitor of the Company, filed a lawsuit in the (U.S. District Court for the District of New Jersey Camden Vicinage,) alleging, among other things, slanderous and libelous statements made to Plaintiff's customers. The Company filed a Counterclaim and Third Party Claims against other competitors, alleging, among other things, business defamation, trademark infringement and conspiracy. Plaintiff and Defendant both claim damages in excess of $75,000. The Company intends to vigorously defend its reputation of ethical integrity (integrity of its products and formulas) and its trademarks.

In 2003 the Company placed increased emphasis on integrated advertising, public relations and investor relations' strategies.

Sales and Marketing

The Company has made tremendous strides in its sales and marketing operations as it continues to build upon a core strategic plan and proven advertising strategy that has led the Company's teleweb operation to drive the sales of its medically supervised weight and disease management products and programs.

The marketing department is staffed by a team of dynamic and technology proficient professionals who work closely with medical and technical staff in the development of cutting edge websites, customer support material, advertising and marketing strategies as well as management of intellectual properties, patents and clinical distributors. The marketing team has been instrumental in the integration of the acquisitions of Consumers Choice Systems and Hi-Energy Weight Control Centers. In addition, the staff works closely with product development to develop product packaging, labeling, promotional material and advertising. The marketing department develops marketing and advertising strategies for all subsidiaries and divisions of Medifast, Inc.

The Company's Sales division was streamlined in 2003 focusing on Clinical Affairs, Business Development and Retail Sales for the Company's new CCS division. The Clinical Affairs and business development team were instrumental in the development of the clinic-licensing program, MEDSLIM, and the integration of Hi-Energy Weight Control®. The sales team is responsible for prospecting larger medical accounts, clinics, hospitals, and HMOs as well as prospecting business opportunities for the Medifast and Woman's Wellbeing brands.

The Company launched a completely redesigned website using the latest technology and user-friendly features to enhance the Company's website presence. The new site provides consumers and business associates with an up-to-date, state-of-the-art resource for information about Medifast, Inc., and its products. Visitors will find the aesthetics of the new site inviting and sophisticated. The design will allow for significant growth and updating in the years to come.

The new Medifast website is hosted in a state-of-the-art IBM-certified data center, built like a fortress including 18-inch thick steel reinforced concrete walls. The data center security system includes extensive camera surveillance, controlled access and biometric hand-scanning technologies, a dry-chemical fire-suppressant system, a controlled temperature and humidity environment and a 24x7x365 Network Operations Center staffed with Cisco, Juniper, IBM and Linux certified engineers. The data center features multiple electrical power feeds with additional back-up power generation.

The primary advertising medium used to attract customers to its teleweb operation in 2003 was print magazines including Parade, USA Weekend, AARP Magazine and Newsweek. The Company placed increased emphasis in 2003 on integrated advertising, public relations and investor relations' strategies. The Company tested a 60-second direct response television commercial in the fall of 2003, which produced a dramatic response. The Company will continue to expand its advertising efforts in 2004 with an integrated strategy to include television, print and radio campaigns.

In addition, the Company plans to develop a 30-minute infomercial, which will compare Medifast to the competition and highlight the Company's Diabetic product line. Emphasis will be placed on public relations in 2004 as the Company expands its disease management strategies with the results of the study on Medifast Plus for Diabetics. The Company plans to expand its direct response television campaign throughout the year across cable and satellite stations as well as major networks. These sales and marketing initiatives tie in with current market trends, seasonal diet trends, and Internet and product development strategies.

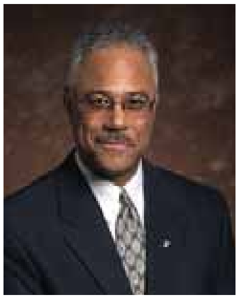
"Medifast is Awesome Baby!" In November 2002, the Company announced that Dick Vitale, a former basketball coach and celebrity sportscaster joined the Medifast team to assist in promoting a healthy lifestyle using the Company's weight and disease management and sports nutrition products. Mr. Vitale is a spokesperson for the Company's Take Shape for Life business and was the keynote speaker at its 2003 conference in Orlando, Florida. The Company also uses Mr. Vitale as a coach and motivator in marketing and advertising for its Fit! Adolescent and Take Shape Sports Nutrition lines. In 2003, the Company conducted a successful radio campaign promoting the Medifast brand during the NCAA basketball tournament, featuring Mr. Vitale as the spokesperson.

The three-year agreement between Mr. Vitale and the Company is to augment the Company's already established sales and marketing efforts, which included more than doubling advertising and coupon support.

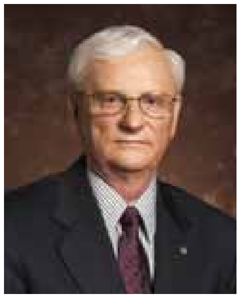
The Company's Clinical Affairs and Marketing departments planned and attended several medical professional trade shows in 2003. The Company continues to advertise to its physician and qualified medical practitioner network in trade publications. This industry specific advertising, which consists of direct mail and targeted ads that include a tear off business reply card, has assisted in the creation of the Medifast database of medical practitioners, which allows the Company to market its products and programs to an interested audience and as a result is leading to the expansion of the medical practitioner network. Medifast launched a For Physicians section on its website where qualified medical practitioners can learn about the Medifast program, register as a Medifast physician or place orders online and receive a 2 percent discount.

There were major enhancements to the Company's call center and order taking capabilities to include an upgrade to the latest release of software to allow the Company to use the latest phone technology, improving the employee to customer relationship. The Company continued its upgrades to its Navision ERP system to more effectively and efficiently manage the increasing inventories and order shipments.

Medifast Corporate Officers



Mr. Leo V. Williams
CEO Take Shape for Life, Inc.
Consumer Choice Systems.
Executive
Vice President
Medifast



Mr. Richard J. Law
Corporate
Vice President
Infrastructure
Development

Mr. Michael S. McDevitt
Vice President of Finance

Mr. Bradley T. MacDonald
Chairman of the Board
CEO of Medifast Inc.

Our Vision

Medifast, Inc. will be the medical meal replacement industry leader providing superior weight management products to its customers while surpassing the customers' expectations for quality, value, and brand awareness. We dedicate ourselves to excellence, integrity, and responsiveness to the marketplace while providing a safe and rewarding workplace for all associates. We undertake to commit ourselves to personal and corporate growth benchmarked to industry standards and we will work together to enhance the value of our company to our stockholders, vendors, and customers while honoring our obligations as corporate citizens of the communities we live and work.

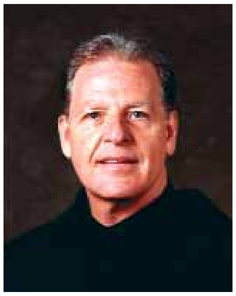
BRADLEY T. MACDONALD became Chairman of the Board and Chief Executive Officer of Medifast, Inc. on January 28, 1998. Prior to joining the Company, he was appointed Program Director of the U.S. Olympic Coin Program of the Atlanta Centennial Olympic Games. Mr. MacDonald was previously employed by the Company as its Chief Executive Officer from September 1996 to August 1997. From 1991 through 1994, Colonel MacDonald returned to active duty 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., and 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 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.

REVEREND DONALD FRANCIS REILLY, O.S.A., a Director, 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 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, and 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, is President of the board of "Bird Nest" in Philadelphia, Pennsylvania and is a Board Member of Prayer Power. Fr. Reilly was recently elected Provincial of the Augustinian Order at Villanova, PA. He will oversee more than 300 Augustinian Friars and their service to the Church, teaching at universities and high schools, ministering to parishes, serving as chaplains in the Armed Forces and hospitals, ministering to AIDS victims, and serving missions in Japan and South America.

MICHAEL C. MACDONALD, a Director, is a corporate officer, the President, North American Solutions Group for the Xerox Corporation. Mr. M. MacDonald's former positions at Xerox Corporation include executive positions in the sales and marketing areas. He is currently on the Board of Trustees of Rutgers University and a Director of the Jimmy V Foundation. Mr. M. MacDonald is the brother of Bradley T. MacDonald, the CEO of the Company.

SCOTT ZION is a Director and Corporate Secretary for Medifast, Inc. He received a Bachelor of Arts Degree from Denison University, Granville, Ohio.

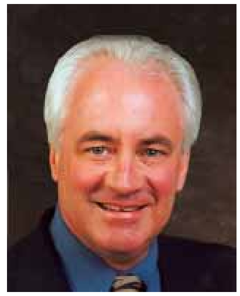
Medifast Board of Directors



Rev. Donald F. Reilly O.S.A.

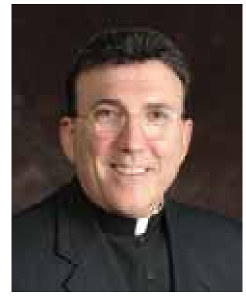
Mr. Michael MacDonald

Mr. Scott Zion



Mr. Michael J. McDevitt

Ms. Mary Travis



Rev. Joseph Calderone O.S.A.

Additional Information

Corporate Address
11445 Cronhill Drive
Owings Mills, MD 21117
800.638.7867
www.medifastdiet.com

Independent Public Accountants
Bagell, Josephs & Company, LLC
Gibbsboro, New Jersey
BDO Seidman Affiliate

General Counsel
Mr. Michael Tanczyn ESQ
Towson, Maryland
Mr. Robert Hallock ESQ
Owings Mills, MD

Transfer Agent
American Stock Transfer & Trust Company
6201 15th Ave - 3rd Floor
Brooklyn, NY 11219

Common Stock Listing
AMX:MED

Annual Meeting
Date: 9/03/04
Time: 10 am.
Place: 11445 Cronhill Drive
Owings Mills, MD 21117

Investor Relations
For additional copies or investment information, please contact our Investor Relations department:

Investor Relations
11445 Cronhill Drive
Owings Mills, MD 21117
(800).638.7867
investment@medifastdiet.com

Mr. Zion is currently a principal in Resources Development, Inc. a health care consulting company in Napa, California. Prior to forming Resources Development, he was Senior Vice President of Sales and Marketing for Santen, Inc. an ophthalmic pharmaceutical company. Before Santen, he was Senior Vice President and General Manager for Akorn, Inc., an ophthalmic manufacturing and distribution company. Pilkington Barnes Hind, a worldwide contact lens company, as Head of North American Sales and Marketing, also employed him. Prior to that, he spent 20 years with the Mead Johnson Nutritional Division of Bristol Myers Squibb in various positions of increasing responsibility in sales management. He has extensive experience in nutritional products particularly in the areas of sales and marketing.

MICHAEL J. MCDEVITT, a Director, is a retired Senior Executive and Senior Security Manager with the Federal Bureau of Investigation (FBI). He is recognized nationally as a leading authority in the U.S. Government on physical security and technical countermeasures. Mr. McDevitt developed and managed highly successful technical security programs through a succession of leadership posts, culminating in a Senior Executive Services position in the Investigative Technology Branch, FBI Laboratory Division. He managed nearly two hundred Special Agent's and engineering support staff spanning a broad spectrum of technical security programs, as well as an annual budget exceeding $200 million. Senior government personnel regard him as a leading expert on technology applied to physical security and has played a leading role in developing critical partnerships with industry as well as coupling technical capabilities with operational requirements.

MARY T. TRAVIS, a Director, 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 31 years of diversified experience. She is an approved instructor of the Mortgage Bankers Association Accredited School of Mortgage Banking and is a Delegate and 2nd Vice President of the Mortgage Bankers Association of Greater Philadelphia. She is the key financial executive on the Company's Audit Committee providing oversight of the Company's external auditors.

REVEREND JOSEPH D. CALDERONE, O.S.A., was named a director of Medifast in November 2003. Rev. Calderone is the Associate Director of Campus Ministry at Villanova University. Formerly, he 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 is currently a Captain in the US Navy Reserves and serves as the Wing Chaplain for the 4th Marine Aircraft Wing. He has spent over 25 years in the medical related field and plans to assist the Company with future growth plans involving development of clinical affairs and diabetic nutrition initiatives.

Certification

CERTIFICATION PURSUANT TO RULE 13-A-14 AND 15D-14 OF

THE SECURITIES AND EXCHANGE ACT OF 1934

I, Bradley T, MacDonald, certify that:

1. I have reviewed this annual report on Form 10-KSB of Medifast, Inc.

2. Based in my knowledge, the annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the annual report.

3. Based on my knowledge, the financial statements and other financial information included in the annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report:

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a. Designed such discloser controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared.

b. Evaluated the effectiveness the registrant's discloser controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the evaluation date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in the this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 15, 2004

_/s/ BRADLEY T. MACDONALD__
Bradley T. MacDonald
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Medifast, Inc. (the "Company") on Form 10-KSB for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Bradley T. MacDonald, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the report fairly presents, in all material respects, the financial condition and results of the operations of the Company.

By: /s/ Bradley T. MacDonald
Bradley T. MacDonald
Chief Financial Officer
March 15, 2004

FORWARD LOOKING STATEMENTS

Forward-looking statements made in this release are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risk and uncertainties which may cause actual results to differ from anticipated results, including risks associated with the timing and development of the Company's reserves and projects as well as risks of downturns in economic conditions generally, and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

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MEDIFAST INC. 2003 FINANCIALS

Management's Discussion and Analysis
2003 Comparison with 2002

OPERATING

Consolidated net sales for 2003 were $25,379,000 as compared to 2002 sales of $12,345,000, an increase of $13,034,000, or 106%. The revenue increase for the Company is attributed to the following: (a) increased Direct Patient Sales via the Internet's Physicians Lifestyles Program; (b) increased advertising support via national print and radio that stimulated increased sales; (c) increased International sales and (d) increase in the Take Shape for Life health network sales.

Gross margins increased to 73% in 2003 from 70% in 2002, due to the higher margins of the Medifast® products. The increase is attributed to the increased margin of Medifast® direct and Internet sales directly to patients via the Lifestyles and Take Shape for Life programs. Selling, general and administrative (SG&A) expenses of $14,956,000 for 2003 were $8,050,000 more than the $6,906,000 in 2002, due to increased advertising expenses to increase new sales, employee costs, upgrading the educational level and training of middle management and the addition of the Take Shape for Life health network sales and marketing infrastructure and commission costs.

In 2003, the Company realized a tax expense of $1,148,000, as compared to a tax benefit of $925,000 in 2002 as a result of previous net loss carry forward.

Interest expense increased by $49,000 due to the Company's increased borrowings for infrastructure growth.

A preferred stock dividend in the amount of $58,000 was accrued to shareholders in 2003.

The Company experienced income from operations for the year 2003 of $3,598,000. This compares with income from operations of $1,752,000 in 2002, an increase of 105%. The profit from operations is attributed to the success of national print and radio advertising, the dynamic growth in the Take Shape for Life Health Advisor Network, international distribution to Asia, increased sales to physicians and clinics, improved gross margins and more direct patient sales via the Internet and the toll free-telephone number supporting the Medifast® physician network and their patients directly.

Industry Comparison of Stock Prices

NUTRACEUTICAL GROUP

Company	December 31, 2003 Stock Price	December 31,2002 Stock Price	$ Change	% Change
Medifast (MED)		**$5.32**	**$8.78**	**165.0%**
Natural Alternatives International (NAII)	$14.10	3.98	2.42	60.8%
Weider Nutrition (WNI)	6.40	1.45	3.00	206.9%
Pure World, Inc. (PURW)	4.45	0.51	2.00	392.1%
Twinlab Corporation (TWLB)	2.51	0.10	(0.08)	(80.0)%
Natures Sunshine Products, Inc. (NATR)	0.02	9.71	(1.29)	(13.3)%

Company	December 31, 2003 Stock Price	December 31,1999 Stock Price	$ Change	% Change
Medifast (MED)		**$0.22**	**$13.88**	**6309.1%**
Natural Alternatives International (NAII)	$14.10	3.25	3.15	96.9%
Weider Nutrition (WNI)	6.40	3.69	0.76	20.6%
Pure World, Inc. (PURW)	4.45	3.12	(0.61)	(19.6)%
Twinlab Corporation (TWLB)	2.51	7.94	(7.92)	(99.7)%
Natures Sunshine Products, Inc. (NATR)	0.02	8.00	0.42	5.3%

PHARMACEUTICAL GROUP

Company	December 31, 2003 Stock Price	December 31,2002 Stock Price	$ Change	% Change
Medifast (MED)		**$5.32**	**$8.78**	**165.0%**
Abbott Labs (ABT)	$14.10	40.00	6.34	15.9%
Unilever (UL)	46.34	38.25	(0.65)	(1.7)%
Novartis (NVS)	37.60	36.73	9.16	24.9%
Bristol Myers Squibb (BMY)	45.89	23.15	5.45	23.5%
	28.60			

Index Comparison

$100 Invested in 1999 would return:	1999	2003
Nutraceutical Group Index	$100	$1,052
Medifast (MED)	**$100**	$6,309
S&P 500	$100	$90

Factual material is obtained from sources believed to be reliable, but the Company is not responsible for any errors or omissions contained herein.

LIQUIDITY AND CAPITAL RESOURCES

On June 11, 2003 Jason Enterprises, Inc. acquired the assets of Consumers Choice Systems, Inc., a Delaware Corporation. The Company obtained all the assets of the business that support their retail and international business including the distribution rights in 18,000 retail food and drug stores. Jason Enterprises, Inc. acquired the assets for 76,120 shares of Medifast, Inc. restricted common stock and 50,000 five-year warrants at a purchase price of $10.00 per share. The transaction will be accounted for as an asset purchase transaction. The Company is expecting to record limited and selected liabilities that amount to approximately $1.35 million.

On July 24, 2003 the Company announced an agreement with Amazon.com. Through the agreement the Consumer Choice Systems, Women's Wellbeing branded products will be offered on Amazon.com's website in the women's health section.

On July 25, 2003, the Company announced that it had sold an aggregate of 550,000 shares of common stock and warrants to purchase 82,500 shares of common stock (the "PIPE Shares") to Mainfield Enterprises, Inc. and Portside Growth & Opportunity Fund. The shares of common stock were sold for a cash consideration of $12.40 per share, or a total of $6,820,000, and the warrants, exercisable for a period of five years from the date of issuance, at an exercise price equal to one hundred fifteen percent (115%) of the five-day volume weighted average price (the "PIPE Transaction"), 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 (the "Securities Purchase Agreement").

On September 12, 2003 Medifast, Inc.'s wholly owned subsidiary Seven Crondall, LLC purchased a 119,825 sq. foot distribution facility located at 601 Sunrise Ave., Ridgely, Maryland, 21660 from NewRoads, Inc. for $2,200,000. The Company financed $1,760,000 through Merrill Lynch Capital at the 30 day LIBOR interest rate plus 220 basis points over seven years.

On September 12, 2003 the Company also acquired the assets and expertise of Dunst and Associates, Inc., a 15-year experienced distributor in Eldersburg,Maryland to operate its new distribution facility. The Company acquired Dunst and Associates assets for $400,000 in cash and 3,347 shares of Medifast, Inc. common stock.

On November 7, 2003 Medifast, Inc.'s wholly owned subsidiary Jason Properties, LLC purchased the assets of Hi-Energy Weight Control Centers, located in Gulf Breeze, Florida. The acquisition includes equipment, inventory, trademarks, and licenses for fifty Hi-Energy clinics. The clinics are located primarily in the southeastern region of the United States. The assets were purchased for $1,500,000 in cash, which included selected liabilities, capital expenditures, costs of assets and miscellaneous fees.

On November 7, 2003 Medifast, Inc.'s wholly owned subsidiary Jason Pharmaceuticals, Inc. increased its Secured Line of Credit from $1,000,000 to $5,000,000 from Mercantile Safe-Deposit and Trust of Baltimore, Maryland. The line of credit is at the LIBOR plus two percent. The increased line may be used to finance equipment, inventory, and receivables of Medifast, Inc.

On March 5, 2004 the Company entered into a joint venture agreement with XL Health, Inc., one of the leading diabetic management companies in the United States. Medifast, Inc.'s Medifast Plus for Diabetics line will be the exclusive nutritional product for XL Health's CMS Medicare Demonstration Project. The pilot project will use Medifast Plus for Diabetics as the exclusive nutritional intervention program to prove the cost effectiveness of disease management programs for Medicare beneficiaries. Take Shape For Life, Inc, through its' parent Medifast, Inc, provided a one million dollar corporate guarantee of XL's revolving credit line secured by the assets of the Company through Mercantile Safe-Deposit and Trust company, the Company's lender.

REPORT OF INDEPENDENT AUDITORS 2003

Board of Directors and Stockholders
Medifast, Inc.

We have audited the consolidated balance sheet of Medifast, Inc. and its subsidiaries as of December 31, 2003, and the related consolidated statements of income, changes in stockholders' equity and comprehensive loss and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Medifast, Inc. and subsidiaries as of December 31, 2003, and the consolidated results of their operations and their consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bagell, Josephs & Company, LLC

Gibbsboro, New Jersey
March 10, 2004

REPORT OF INDEPENDENT AUDITORS 2002

Board of Directors and Stockholders
Medifast, Inc.

We have audited the accompanying consolidated statements of income, changes in stockholders' equity and cash flows of Medifast, Inc. and subsidiaries for the year ended December 31, 2002. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations of Medifast, Inc. and subsidiaries for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

Wooden & Benson

Baltimore, Maryland
March 4, 2003

Consolidated Statements of Operations

December 31,		2003	2002	2001
Net sales		**$25,379,000**	$12,345,000	$5,022,000
Cost of sales		6,825,000	3,687,000	2,211,000
Gross profit		18,554,000	8,658,000	2,811,000
Selling, general and administrative expenses		14,956,000	6,906,000	2,066,000
Income from continuing operations before other income (expenses)		3,598,000	1,752,000	745,000
Other income (expenses):				
Interest and other financing expense, net		(150,000)	(101,000)	(240,000)
Other income		110,000	47,000	61,000
		(40,000)	(54,000)	(179,000)
Net income before (provision) benefit for income taxes		3,558,000	1,698,000	566,000
Provision for income tax benefit (expense)		(1,148,000)	925,000	22,000
Net income/comprehensive income		2,410,000	2,623,000	588,000
Less:				
Preferred Stock dividend requirement		58,000	218,000	52,000
		0	0	10,000
		58,000	218,000	62,000
Net income attributable to common stockholders		**$2,352,000**	$2,405,000	$526,000
Basic earnings per share		**$0.25**	$0.36	$0.08
Diluted earnings per share		**$0.22**	$0.30	$0.07
Weighted average shares outstanding	– basic	9,305,731	6,722,505	6,524,969
	– diluted	10,952,367	8,737,292	8,069,646

See accompanying notes

Consolidated Balance Sheet

December 31,	2003	2002
Assets		
Current assets:		
Cash	$2,524,000	$837,000
Accounts receivable - net of allowance for doubtful accounts of $55,000	641,000	284,000
Inventory	2,988,000	1,259,000
Prepaid expenses and other current assets	936,000	249,000
Investment securities	3,983,000	
Deferred compensation	321,000	
Deferred tax asset	596,000	1,079,000
Total current assets	11,989,000	4,126,000
Property, plant and equipment – net	7,449,000	4,498,000
Trademarks and intangibles	4,419,000	608,000
Other assets	375,000	1,000
Total assets	**$24,232,000**	$9,888,000
Liabilities And Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	1,714,000	1,189,000
Dividends payable	58,000	25,000
Line of credit	55,000	91,000
Current maturities of long term debt	764,000	304,000
Total current liabilities	2,591,000	1,609,000
Long term debt, net of current portion	4,564,000	2,701,000
Total liabilities	7,155,000	4,310,000
Stockholder's Equity:		
Series B convertible preferred stock; par value $1.00; 600,000 shares authorized; 403,734 shares issued and outstanding	404,000	521,000
Series C convertible preferred stock; par value $0.001; market value $1.00; 1,015,000 shares authorized; 267,000 shares issued and outstanding	267,000	985,000
Common stock; par value $.001 per share; 15,000,000 shares authorized; 10,482,609 shares issued and outstanding	10,000	7,000
Additional paid-in capital	20,120,000	9,613,000
Accumulated comprehensive loss	(25,000)	
Accumulated deficit	(3,016,000)	(5,381,000)
	17,760,000	5,745,000
Less: Cost of 83,863 shares of common stock in treasury	(683,000)	(167,000)
	17,077,000	5,578,000
Total Liabilities And Stockholders' Equity	**$24,232,000**	$9,888,000

See accompanying notes

Consolidated Statements of Changes in Stockholders Equity

	Series B Preferred Stock		Series C Preferred Stock		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	Accum. Comp. Loss	Accumulated Deficit	Total	Treasury Stock
Balance, December 31, 2001	552,757	$553,000	849,000	$849,000	6,564,531	$7,000	$8,915,000		($7,786,000)	$2,538,000	$0
Common Stock Issued to Employees, directors consultants & contractors					170,000		218,000			218,000	
Options exercised to Common Stock					222,664		189,000			189,000	(165,000)
Warrants Converted to Common Stock					106,060		35,000			35,000	
Preferred Converted to Common Stock	(31,467)	(32,000)	(30,000)	(30,000)	141,438		62,000				
Dividends on Preferred Stock									(93,000)	(93,000)	
Preferred Stock issued for cash			102,000	102,000						102,000	
Preferred Stock issued to employees and consultants			64,000	64,000						64,000	
Options granted to non-employees							69,000			69,000	
Purchase of Treasury Shares											(2,000)
Dividend resulting from beneficial conversion feature							125,000		(125,000)		
Net Income									2,623,000	2,623,000	
Balance, December 31, 2002	521,290	$521,000	985,000	$985,000	7,204,693	$7,000	$9,613,000	0	$(5,381,000)	$5,745,000	$(167,000)
Preferred converted to Common Stock	(117,556)	(117,000)	(718,000)	(718,000)	1,671,108	2,000	833,000				
Options exercised to Common Stock					615,714		590,000			590,000	(516,000)
Warrants converted to Common Stock					288,724		350,000			350,000	
Common Stock issued to Directors, Consultants and acquisitions					665,970	1,000	8,717,000			8,717,000	
Common Stock issued for Series "C" Dividend					36,400		18,000			18,000	
Dividend paid in stock									(45,000)	(45,000)	
Net Income								(25,000)	2,410,000	2,385,000	
Balance, December 31, 2003	403,734	$404,000	267,000	$267,000	10,482,609	$10,000	$20,120,000	($25,000)	($3,016,000)	$17,760,000	($683,000)

See accompanying notes

Consolidated Statements of Cash Flows

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$2,410,000	$2,623,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities from continuing operations:		
Depreciation and amortization	677,000	321,000
Realized gain on investment securities	(1,000)	0
Common stock issued for services	207,000	95,000
Series "C" Preferred issued for services	0	24,000
Deferred income tax expense (benefit)	1,138,000	(925,000)
Changes in:		
Accounts receivable	(357,000)	(1,000)
Inventory	(1,729,000)	(619,000)
Prepaid expenses and other current assets	(735,000)	(173,000)
Deferred compensation	(350,000)	0
Other assets	0	199,000
Accounts payable and accrued expenses	488,000	912,000
Net cash provided by operating activities	1,748,000	2,456,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of certificates of deposit	418,000	319,000
Investment in certificates of deposit	0	(409,000)
Purchase of investment securities	(3,982,000)	0
Proceeds from sale of property and equipment	0	4,000
Purchase of building	(1,980,000)	(3,451,000)
Purchase of intangible assets	(2,128,000)	(505,000)
Purchase of property and equipment	(1,353,000)	(526,000)
Net cash (used in) investing activities	(9,025,000)	(4,568,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Series A preferred stock		
Issuance of Common stock	0	(150,000)
Issuance of Series C convertible preferred stock	6,722,000	59,000
Repayment of capital lease obligations	0	102,000
Increase (decrease) in credit line (net)	0	(23,000)
Principal repayments of long-term debt	(36,000)	91,000
Proceeds from long-term debt	(346,000)	(374,000)
Dividends paid on preferred stock	2,669,000	3,070,000
Purchase of treasury shares	(45,000)	(94,000)
Net cash provided by financing activities	0	(2000)
Net Increase in Cash and Cash Equivalents	8,964,000	2,679,000
Cash and cash equivalents - beginning of the year	1,687,000	567,000
Cash and Cash Equivalents end of the year	**837,000**	270,000
Supplemental Disclosures of Cash Flows Information		
Interest paid	$2,524,000	$837,000
Taxes paid	$154,000	$90,000
	0	0

Consolidated Statements of Cash Flows *(continued)*

Supplemental Disclosures of Non-Cash Investing and Financial Activities:	2003	2002
Common stock issued for services	$207,000	$95,000
Conversion of preferred stock B and C to common stock	835,000	0
Series C preferred stock issued to an officer	0	20,000
Common stock for intangibles and fixed assets	1,949,000	0
Preferred stock dividends	18,000	0
Options issued to non-employees	0	69,000
Warrants issued to preferred stockholders	0	71,000

See accompanying notes

Notes to Consolidated Financial Statements

Note A - Business

The year of 2003 was one of phenomenal growth for Medifast, Inc. (the "Company"). The growth accomplished by the Company throughout 2003 is particularly apparent in the categories such as revenue and pre-tax profit, both of which were up over 100% from the year-end December 31, 2002. However it is also necessary to place an emphasis on the growth of particular infrastructure components, such as the production, order taking and shipping capabilities, that are the operating platforms which will allow the continuance of these growth rates in the coming years. The major operations responsible for this growth are conducted throughout the five wholly owned subsidiaries, Jason Pharmaceuticals, Inc., Take Shape for Life, Inc., ("TSFL") Jason Enterprises, Inc., Jason Properties, LLC, and Seven Crondall, LLC.

The Company is engaged in the manufacturing and distribution of Medifast, and Hi-Energy, branded and private label weight and disease management products. These products are sold through various channels of distribution, to include medical professionals, weight loss clinics, direct consumer marketing supported via the phone and the web, supported by licensed, qualified medical practitioners including qualified health advisors. 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.

During the year of 2003 the Company significantly improved its financial outlook. The major factors for this improvement were related to the the increased revenues and profits generated throughout the year, the acquisition of assets, and the raising of more than $6.8 million dollars through a Private Placement initiated through the Company's financial advisor and placement agent, Merrill Lynch & Company, Inc. The raising of capital provided the necessary funds to allow the Company to move forward with multiple strategies that will be the main drivers for the future revenue growth. These strategies include, but are not limited to the Company's advertising initiatives, featuring television, print and radio, expansion of their Corporate Weight and Disease Management Clinics and the dynamic growth of the Take Shape For Life health network. The capital also allowed the Company to move forward in building an internal infrastructure that will parallel the substantial growth in revenues that are expected to occur during the next five years. The following financial transactions, which occurred throughout 2003, assisted in providing the financial platform as well as the necessary infrastructure to allow the Company to execute its plan for exponential and profitable growth in 2004 and beyond.

On June 11, 2003 Medifast, Inc.'s wholly owned subsidiary Jason Enterprises, Inc. completed the acquisition of the assets of Consumer Choice Systems, Inc. ("CCS"). CCS is a retail distribution company focusing on high quality, innovative products for women, marketed under the Woman's Wellbeing brand. CCS products are currently distributed in over 18,000 retail outlets nationwide. The CCS business is supported by a website and toll-free customer service line where customers can inquire about product information and retail availability.

On July 25, 2003, the Company announced it had sold an aggregate of 550,000 shares of common stock and warrants to purchase 82,500 shares of common stock (the "PIPE Shares") to Mainfield Enterprises, Inc. and Portside Growth & Opportunity Fund. The shares of common stock were sold for a cash consideration of $12.40 per share, or a total of $6,820,000, and the warrants, exercisable for a period of five years from the date of issuance, at an exercise price of $16.78, that being equal to one hundred fifteen percent (115%) of the five-day volume weighted average price (the "PIPE Transaction"), 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 (the "Securities Purchase Agreement").

On August 4, 2003 Medifast, Inc.'s wholly owned subsidiary Jason Enterprises, Inc established a Revolving Line of Credit with Wachovia Bank, National Association of $1 million. The Line of Credit is at Libor plus 2.5%. The Line of Credit will be used to finance foreign exchange needs related to the Company's overseas requirements.

On September 12, 2003 Medifast, Inc.'s wholly-owned subsidiary Seven Crondall Associates, LLC purchased a 119,825 sq. foot distribution facility from New Roads, Inc. for $2.6 million. The "state of the art" distribution facility, located on the Maryland eastern shore, has given the Company the capability to distribute over $200 million of Medifast product sales per year. The Company financed $1.76 million through Merrill Lynch Capital at the 30 day LIBOR interest rate plus 220 basis points over seven years.

On November 7, 2003 Medifast, Inc.'s wholly-owned subsidiary Jason Properties, LLC purchased the assets of Hi-Energy Weight Control Centers, a national company specializing in weight management programs, with weight loss centers in over 50 locations. Hi-Energy centers offer a competitive marketing edge through a regional advertising program, exclusive territories and marketing support.

On November 7, 2003 Medifast, Inc.'s wholly owned subsidiary Jason Pharmaceuticals, Inc. increased its Secured Line of Credit with Mercantile Safe Deposit and Trust of Baltimore, Maryland from $1 million to $5 million. The Line of Credit is at Libor plus two percent. The increased Line of Credit will be used to finance capital requirements incurred while building equipment, inventory and receivables as its business is expected to expand and grow in 2004.

Note B - Significant Accounting Policies

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

1. 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.

2. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. At December 31, 2003, the Company had invested in four $100,000 certificates of deposit, which are considered cash equivalents. The Company also invested $465,000 in miscellaneous investments through Merrill Lynch. These investments are considered cash equivalents due to terms of maturity.

3. Inventory:

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.

4. 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 so deferred were $295,000 at December 31, 2003. Advertising expense for the years ended December 31, 2003 and 2002 amounted to $2,233,000 and $1,214,000, respectively.

5. 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 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.

6. Income Taxes
The Company accounts for income taxes in accordance with the liability method. Deferred taxes are recognized for temporary differences in the recognition of income and expenses for financial reporting and income tax purposes, principally due to net operating loss carryforwards and allowances.

7. 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.

8. Revenue
Revenue from sales is recognized when the product is shipped to customers or purchased by wholesale customers.

9. 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.

10. Fair Value of Financial Instruments
The carrying amounts reported in the consolidated balance sheet 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.

11. 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, certificates of deposit and investment securities at December 31, 2003 include amounts deposited with multiple financial institutions that exceed the federal insurance coverage by $3,862,000. The Company markets its products primarily to medical professionals, clinics, and Internet medical sales and has no substantial concentrations of credit risk in its trade receivables.

12. Stock-Based Compensation
The Company has adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The provisions of SFAS 123 allow companies to either expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Bulletin Opinion No. 25, “Accounting for Stock Issued to Employees" ("APB 25") but disclose the pro forma effects on net income (loss) had the fair value of the options been expensed. The Company has elected to continue to apply APB 25 in accounting for its employee stock option incentive plans.

On October 9, 1993 and as amended in May 1995, the Company adopted a stock option plan ("Plan") authorizing the grant of incentive and nonincentive 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 2003, 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.

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 (over):

Note B - Significant Accounting Policies *(continued)*

12. *Stock Based Comphensation*

December 31,	2003	2002
Net income:	$2,410,000	$2,623,000
As reported		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(403,000)	(95,000)
Pro forma	$2,007,000	$2,528,000
Net income per share:		
As reported:		
Basic	$0.25	$0.36
Diluted	$0.22	$0.30
Pro forma:		
Basic	$0.21	$0.34
Diluted	$0.18	$0.29

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 grant is estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2003	2002
Dividend Yield	0.0%	0.0%
Expected Volatility	0.40	0.40
Risk-Free Interest Rate	3.00%-3.50%	3.00%-5.00%
Expected Life in Years	1-5	1-5

13. Segment Information

In 2003 and 2002, the Company's international joint venture arrangements for distribution of goods in the Asian market were responsible for the revenue recognition of approximately $2,000,000 and $233,000, respectively.

In 2003, the Company's retail distribution through the division of Consumer Choice Systems recognized revenue of $730,000.

14. Recent Accounting Pronouncements

In June 2001, the 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 consolidated financial statements. This statement has been considered in the preparation of the consolidated financial statements.

On July 20, 2000, the Emerging Issues Task Force issued EITF 00-14 "Accounting For Certain Sales Incentives" which establishes accounting and reporting requirements for sales incentives such as discounts, coupons, rebates and free products or services. Generally, reductions in or refunds of a selling price should be classified as a reduction in revenue. For SEC registrants, the implementation date is the beginning of the fourth quarter after the registrant's fiscal year end December 15, 1999. EITF 00-14 has been considered in the preparation of the consolidated financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB 101 provides guidance for revenue recognition under certain circumstances, and is effective during the first quarter of fiscal year 2001. SAB 101 has been considered in the preparation of the consolidated financial statements.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", an amendment of FASB Statement No. 123"("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends Accounting Principles Board ("APB") Opinion No. 28, "Interim Financial Reporting", to require disclosure about those effects in interim financial information. SFAS 148 is effective for financial statements for fiscal years ending after December 15, 2002. The Company will continue to account for stock-based employee compensation using the intrinsic value method of APB Opinion No. 25, "Accounting for Stock Issued to Employees", but has adopted the enhanced disclosure requirements of SFAS 148.

Notes to Consolidated Financial Statements *(continued)*

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

	2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	891,669	$0.69	706,000	$0.36
Options granted	163,500	5.32	340,000	1.14
Options reinstated	0	0.00	100,000	1.50
Options exercised	(615,714)	1.16	(222,664)	0.85
Options forfeited or expired	0	0.00	(31,667)	0.26
Outstanding at end of year	439,455	1.76	891,669	0.69
Options exercisable at year end	302,668	0.76	714,994	0.64
Options available for grant at end of year	810,545		108,331	

The following table summarizes information about stock options outstanding and exercisable at December 31, 2003.

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
$0.25	165,00	1.3	$0.25	165,000	$0.25
$0.32	16,670	2.7	$0.32	10,000	$0.32
$0.50	100,000	1.9	$0.50	100,000	$0.50
$0.65	25,001	3.6	$0.65	0	$0.65
$0.80	20,001	3.5	$0.80	1,667	$0.80
$0.86	6,667	3.5	$0.86	3,333	$0.86
$1.23	6,668	3.7	$1.23	0	$1.23
$1.26	16,667	3.7	$1.26	0	$1.26
$1.60	8,334	3.8	$1.60	0	$1.60
$4.80	35,779	4.3	$4.80	19,332	$4.80
$8.26	2,000	4.4	$8.26	0	$8.26
$11.12	16,668	4.4	$11.12	0	$11.12
$11.15	20,000	4.5	$11.15	3,333	$11.15
	439,455	2.5	**$1.71**	**302,665**	**$0.76**

15. Investments

In accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, 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 SFAS No. 115. Further, SFAS 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.

16. Reclassifications

Certain amounts for the year ended December 31, 2002 have been reclassified to conform with the presentation of the December 31, 2003 amounts. The reclassifications have no effect on net income for the year ended December 31,2002.

Note C - Inventory

Inventory consists of the following at December 31, 2003:

Raw materials	$813,000
Packaging	$694,000
Finished goods	$1,481,000
	$2,988,000

Note D - Property, Plant & Equipment

Property, plant and equipment at December 31, 2003 consist of the following:

Land	$565,000
Building and building improvements	5,937,000
Equipment and fixtures	2,855,000
Vehicle	20,000
	9,377,000
Less accumulated depreciation & amortization	1,928,000
Property, plant and equipment - net	$7,449,000

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

Depreciation expense for the years ended December 31, 2003 and 2002 were $421,000 and $246,000, respectively.

Note E - Trademarks

On March 16, 2004, the Company anticipates approval will be issued from the U.S. Patent and Trademark Office for the patent of the Medifast Diabetic Nutrition and Weight Loss Drink Composition. The patent number is 6,706,697. Costs associated with the issuance, which consist of raw materials, salaries, and consulting fees, amounted to $331,000.

As part of the asset purchase agreement with Consumer Choice Systems, Inc. the Company purchased intangible assets totaling $500,000. These assets consisted of the Consumer Choice Systems Customer List, and the Trademarks and Property Rights to several Consumer Choice Systems products.

As part of the asset purchase agreement with Hi-Energy Weight Control Centers, the Company purchased intangible assets valued at $1,000,000. These assets consisted of the Hi Energy Customer List and the Hi Energy Trademarks.

A summary of Trademarks and Intangibles as of December 31, 2003 is as follows:

Trademarks	$660,000
Customer Lists	1,100,000
Other Intangibles	2,909,000
	4,669,000
Less accumulated amortization	250,000
Trademarks and intangibles	$4,419,000

Amortization expense for the years ended December 31, 2003 and 2002 were $227,000 and $23,000, respectively.

Note F- Accounts Payable & Accrued Expenses

Accounts payable and accrued expenses include the following at December 31, 2003:

Trade payables	$969,000
Accrued expenses and other	121,000
Accrued payroll and related taxes	96,000
Sales commissions payable	360,000
Deferred revenue	168,000
Total	$ 1,714,000

Note G - Income Taxes

At December 31, 2003, the principal components of the net deferred tax assets are as follows:

Net operating loss carryforwards	$290,000
Accounts receivable	32,000
Inventory overhead and write downs	274,000
Total deferred tax assets	596,000
Current benefit	596,000
Total	$ 0

In 2002, it was determined that the entire net operating loss was realizable by 2004 and the valuation allowance was eliminated. A reconciliation of the federal statutory rate to the income tax expense is at right:

	2003	2002
Income tax (benefit) based on federal statutory rate	$973,000	$577,000
State and local tax (benefit), net of federal benefit	175,000	111,000
Decrease in valuation allowance	0	(1,613,000)
Income tax benefit (expense)	$1,148,000	$(925,000)

The Company has net operating loss carryforwards of approximately $750,000 that are available to offset future taxable income. These carryforwards expire from 2009 to 2019. The Tax Reform Act of 1986 contains provisions that limit the net operating loss carryforwards available for use should significant changes in ownership interests occur. The Company may be subject to rules related to an ownership change which may require the applications of these limitations.

Note H - Long Term Debt and Line of Credit

Long-term debt as of December 31, 2003 consists of the following:

$2,850,000 fifteen year term loan secured by the building and land at a variable rate which was 3.87% at December 31, 2003	$2,581,000
$1,760,000 ten-year reducing revolver line of credit rate at LIBOR plus 220 bps , which was 3.32% on December 31, 2003	1,740,000
$186,976 three-year term loan secured by 20,000 restricted common shares variable rate which was 7% at December 31, 2003	151,000
$220,000 two-year term loan secured by equipment at a floating rate which was 6% at December 31, 2003	73,000
$200,000 five-year term loan secured by equipment fixed rate was 3% at December 31, 2003	172,000
$100,000 unsecured note payable at a fixed rate of 3%, discounted to an incremental borrowing rate of 12%	59,000
Note payable over 3 years secured by vehicle at a fixed rate of 12.25%	2,000
$550,000 agreement three years secured by certain assets of the Company	550,000
	5,328,000
Less current portion	764,000
	$4,564,000

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

2004	$764,000
2005	585,000
2006	624,000
2007	477,000
2008	65,000
Thereafter	2,413,000
	$5,328,000

The Company has established a $5 Million revolving line of credit at the LIBOR rate plus 2% 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 $55,000 at December 31, 2003.

Note I Employment Agreements

The CEO of Medifast, Inc., Bradley T. MacDonald, has a two-year employment agreement for an aggregate annual base salary of $225,000 with a bonus potential of 50% of base salary provided the Company makes its profit plan per the Board approved forecast. This contract has been extended to December 31, 2005. Due to the inequities of funding a retirement plan in the 401K, and in recognition of the performance responsible for the turnaround of the Company, the Board of Directors approved a Selective Executive Retirement Compensation Plan funded by the form of deferred compensation. The Deferred Compensation Plan will be funded up to $350,000 by a dollar for dollar match program, having Mr. MacDonald defer $175,000, followed by a Company match of $175,000. Mr. MacDonald exercised 100,000 options at $.25 in January 2003 and 15,000 options at $.75 in March 2003. He has no options remaining available to exercise.

Note J - Redeemable Preferred Stock

In August 1996, the Company sold 432,500 shares of Series “A” nonvoting preferred stock that generated gross proceeds of $865,000, or $2.00 per share. Each share was entitled to a dividend of 8% ($.16) per share. The shares were convertible into the Company's common stock on the basis of one share of common stock for each share of convertible preferred stock. In 2001, 157,000 shares opted to convert to Series “C” Preferred Convertible Stock and 85,000 shares were redeemed under the partial settlement and conversion to Series “C” preferred convertible stock offered to Series “A” preferred stockholders as approved by the Board of Directors. In 2002 the remaining 75,000 shares were redeemed.

Note K - Series “B” Convertible Preferred Stock

In January 2000, the Company was authorized to issue 600,000 Series “B” Convertible Preferred Stock (“Preferred Stock B”) par value $1.00 per share. Each share is entitled to a dividend of 10% of liquidation value $1.00 ($.10) per share and is to be converted on January 15, 2005 unless converted prior thereto. Each holder of Preferred Series “B” stock is entitled to four votes per share in all matters in which holders of the Company’s common stock are entitled to vote.

Each share of Preferred Series “B” stock is convertible, at the option of the holder after one year from the issuance date into common stock of the Company. The initial conversion price will be 75% of the market value of the Company’s common stock on the day prior to conversion with a maximum conversion price of $.50 per share subject to adjustment as defined. In March 2002, the Board amended the Series “B” convertible preferred stock terms and conditions as follows (1) a dividend of 10% paid in preferred stock, or (2) cash at the option of the holder. The Board also fixed the conversions of Series “B” preferred at $0.50 per share in common stock and eliminated the spiral conversion provision and reduced voting to 2 votes per share.

Throughout the year of 2003, 117,556 shares of Series “B” Convertible Preferred Stock were converted into 235,112 shares of Common Stock. As of December 31, 2003 there were 403,734 shares of Series “B” Convertible Preferred Stock remaining.

Note L - Series “C” Convertible Preferred Stock

In the Fall of 2001, the Company was authorized to issue 1,015,000 shares of Series “C” Preferred Convertible Stock par value (.001), market value $1.00 per share. Each share is entitled to a dividend of 10% of liquidation value $1.00 ($.10) per share and is to be converted on December 31, 2006 unless converted prior thereto. Each Holder of Preferred Series “C” Stock is entitled to one (1) vote per share in all matters in which holders of the Company’s Common Stock are entitled to vote. Each share of Preferred Series “C” Stock is convertible, at the option of the holder, after one year from the issuance date into Common Stock of the Company. The conversion price will be $.50 a share. In 2002, 11,500 warrants issued at $0.35 per share were distributed proportionately to Series “C’ preferred holders.

Throughout the year of 2003, 718,000 shares of Series “C” Preferred Convertible Stock were converted into 1,436,000 shares of Common Stock. As of December 31, 2003 there were 267,000 shares of Series “C” Preferred Convertible Stock remaining.

The beneficial conversion feature for the 166,000 shares of Series “C” Preferred Convertible Stock issued in 2002, representing the difference between the conversion price and fair value of the common stock at the date of issuance, was $125,000. Such amount was treated as a preferred stock dividend for accounting purposes and reflected in the calculation of the per share results attributed to common stockholders.

Note M - Warrants

During 2003, the Company issued 200,000 warrants to James Paradis and Anthony Burrascono, both affiliated with Villanova University and 200,000 warrants to Mr. David Scheffler, 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 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 2003.

During the year 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 2002, the Company issued 128,524 warrants to holders of Series "B" Preferred Stock and 11,200 warrants to holders of Series "C" Preferred stock. These are three year warrants to purchase common shares at exercise prices of $0.35 per share. These warrants were valued at $71,000.

The fair value of these warrants was estimated using the Black-Scholes pricing model with the following assumptions: interest rate 3% - 3.5%, dividend yield 0%, volatility 0.40 and expected life of five years.

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

		Year Ended December 31,	
Exercise Price	Expiration date	**2003**	2002
$0.25	January, 2003	0	56,000
$0.35	August, 2004	40,100	80,100
$0.35	March, 2005	0	102,724
$0.45	September, 2003	0	30,000
$0.625	September, 2004	2,500	27,500
$1.50	August, 2003	0	60,000
$1.50	April, 2003	0	60,000
$4.80	April, 2008	400,000	0
$10.00	June, 2006	25,000	0
$16.78	July, 2008	82,500	0
		550,100	416,324
Weighted average exercise		**$6.49**	$0.73

As of December 31, 2003, 230,100 of the warrants were exercisable. Additionally, during 2003 there were 263,724 warrants exercised at various exercise prices.

Notes to Consolidated Financial Statements *(continued)*

Note N - Commitments, Contingents and Other Matters

The Company, like other manufacturers and distributors of products that are ingested, 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.

Note O - Litigation

On June 10, 2003, Medifast, Inc. and Jason Pharmaceuticals, Inc. filed a Complaint for Damages, Injunctive Relief and Determination of Discharge ability against John A. Sankey in the U.S. Bankruptcy Court for the District of Alaska. Defendant, who also trades under the name, "Diet–Fast," and who also owns Wellness Institute of Alaska, Inc., was at one time a distributor of Medifast products, but the Company terminated the distributorship contract. Nevertheless, Defendant continued to utilize Medifast trademarks and service marks in violation of said contract. On December 3, 2003, the parties entered into an Agreement for Settlement whereby Defendant would cease using all trademarks and service marks of the Company. The court approved the Settlement on February 2, 2004.

On August 21, 2002 Food Sciences Corporation, Inc. trading as Robard Corporation, a competitor of the Company, filed a lawsuit in the U.S. District Court for the District of New Jersey Camden Vicinage, alleging, among other things, slanderous and libelous statements made to Plaintiff's customers. The Company filed a Counterclaim and Third Party Claims against other competitors, alleging, among other things, business defamation, trademark infringement and conspiracy. Plaintiff and Defendant both claim damages in excess of $75,000. The company intends to vigorously defend its reputation of ethical integrity (integrity of its products and formulas) and its trademarks.

Note P - Subsequent Events

On March 5, 2004 the Company entered into a joint venture agreement with XL Health, Inc., one of the leading diabetic management companies in the United States. Medifast, Inc.'s Medifast Plus for Diabetics product line will be the exclusive nutritional product for XL Health's CMS Medicare Demonstration Project. The pilot project will use Medifast Plus for Diabetics as the exclusive nutritional intervention program to prove the cost effectiveness of disease management programs for Medicare beneficiaries. As part of the joint venture Mercantile Safe Deposit and Trust Company became the Lender to XL Health for a one-year Series "A" revolving loan with a maximum principal amount of $1 Million. Medifast, Inc. guaranteed the payment on behalf of XL Health, and therefore has become the Guarantor of the Loan to Mercantile Safe Deposit and Trust.

Medifast, Inc. intends to increase the number of licensed and corporately owned clinics to over 125 nationwide by year-end in 2004. The Company has acquired over 30 additional Hi-Energy licensed Weight Control Centers since December 31, 2003. With of over 100 Weight and Disease Control clinics to date, Medifast, Inc. has become one of the six largest Weight Control Clinic licensors and operators in the United States.

Executive Compensation

The following table sets forth information as to the compensation of the Chief Executive Officer of the Company and each other executive officer who received compensation in excess of $100,000 for 2003, 2002, and 2001.

Name	Year	Salary ($)	Bonus ($)	Value of Common/ Preferred Stock Issued in Lieu of Cash	Option Awards	Other Annual Compensation
Bradley T. MacDonald	2003	225,000	112,000	0	0	0
Chairman of the Board	2002	145,000	75,000	0	100,000 (1)	0
&CEO	2001	135,371	(0)	$20,000 (2)	0	0

(1) The Board of Directors reinstated 100,000 options at $1.50 per share granted in 1997 and not exercised. Mr. MacDonald exercised those options in December 2002 per the Board's direction.
(2) Mr. MacDonald was issued 20,000 shares of restricted Series "C" Preferred Convertible Stock as part of compensation related to restructuring and raising new capital.

Stock Options

The Company's 1993 Employee Stock Option Plan (the "Plan"), as amended in July 1995, December 1997, June 2002, and again in July 2003 authorizes the issuance of options for 1,250,000 shares of Common Stock. The Plan authorizes the Board of Directors or the Compensation Committee appointed by the Board to grant incentive stock options and non-incentive stock options to officers, key employees, directors, and independent consultants, with directors who are not employees and consultants eligible only to receive non-incentive stock options. Employee stock options are vested over 2 years.

* The following tables set forth pertinent information as of December 31, 2003 with respect to options granted under the Plan since the inception of the Plan to the persons set forth under the Summary Compensation Table, all current executive officers as a group and all current Directors who are not executive officers as a group of the Company. In addition, a chart listing option holders, grants made in FY 2003, and a list of aggregated options and the value of these options, is provided.

	Bradley T. MacDonald (1)	All Current Executive Officers as a Group	All Current Independent Directors as a Group
Options Granted	215,000	92,500	110,000
Average Exercise Price	$0.86	$0.67	$1.07
Options Exercised	215,000	76,665	100,000
Average Exercise Price	$0.86	$0.53	$0.70
Shares sold	"0"	"0"	"0"
Options unexercised as of 12/31/03	95,000	15,835	10,000

	FY03 Grants @ Price & Expiration Month/Year	Approximate 5 YR Potential Realizable Value at %10 Annual Stock Appreciation	Unexercised Options as of 12/31/03	Value of Unexercised Options as of 12/31/03
Current Executive Officers & Directors	12,500@$4.80 2008		12,500	$116,250
Employees	69,333@$8.71 2008		46,669	$258,260
Consultants	81,667@$2.23 2008		4,445	$41,339
			63,614*	$415,849

*Vested options granted are below. 1,250,000 authorized.

Compensation of Directors

The Company is authorized to pay a fee of $300 for each meeting attended by its Directors who are not executive officers. It reimburses those who are not employees of the Company for their expenses incurred in attending meetings. Independent Directors claimed $2,459 in Director's fees and/or expenses in 2003. See "Executive Compensation – Stock Options" for stock options granted under the 1993 Plan to the Directors. The Company authorized stock options under rule 144 of 2,500 shares at $4.80 to all non-executive members of the board of directors, which includes Michael J. McDevitt, Michael C. MacDonald, Scott Zion, Mary Travis and Rev. Donald Reilly.

Recent Developments

On March 5, 2004 the Company entered into a joint venture agreement with XL Health, Inc., one of the leading diabetic management companies in the United States. Medifast, Inc.'s Medifast Plus for Diabetics line will be the exclusive nutritional product for XL Health's CMS Medicare Demonstration Project. The pilot project will use Medifast Plus for Diabetics as the exclusive nutritional intervention program to prove the cost effectiveness of disease management programs for Medicare beneficiaries. As part of the joint venture Mercantile Safe Deposit and Trust Company became the Lender to XL Health for a revolving loan with a maximum principal amount of $1 Million. Medifast, Inc. guaranteed the payment on behalf of XL Health, and therefore has become the Guarantor of the Loan to Mercantile Safe Deposit and Trust.

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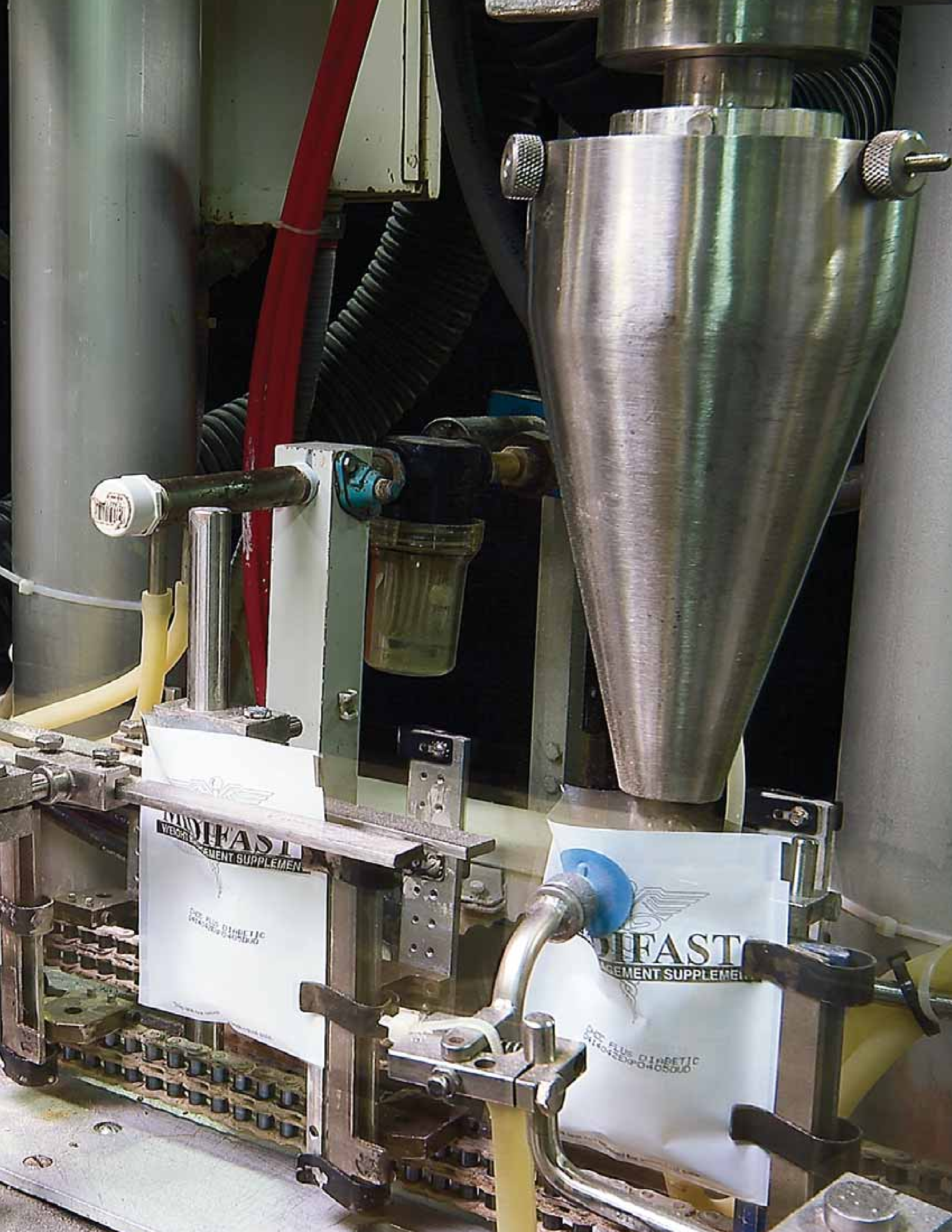
Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information with respect to the beneficial ownership of shares of Common Stock or voting Preferred Stock as of December 31, 2003 of the Chief Executive Officer, each Director, each nominee for Director, each current executive officer named in the Summary Compensation Table under "Executive Compensation" and all executive officers and Directors as a group. The number of shares beneficially owned is determined under the rules of the Securities and Exchange Commission and the information is not necessarily indicative of beneficial ownership for any other person. Under such rules, "beneficial ownership" includes shares as to which the undersigned has sole or shared voting power or investment power and shares, which the undersigned has the right to acquire within 60 days of March 15, 2003 through the exercise of any stock option or other right. Unless otherwise indicated, the named person has sole investment and voting power with respect to the shares set forth in the table.

NAME AND ADDRESS*	NUMBER OF SHARES	% OF OUTSTANDING
Bradley T. MacDonald	1,309,873 (1)	12.5%
Donald F. Reilly	65,452 (2)	0.62%
Michael C. MacDonald	38,354 (2)	0.37%
Scott Zion	182,500 (2)	1.74%
Mary Travis	5,340 (2)	0.05%
Michael J. McDevitt	13,900 (2)	0 .13%
Executive Officers and Directors as a group (8 persons)	1,615,419	15.41%

*The address is c/o Medifast, Inc., 11445 Cronhill Drive, Owings Mills, Maryland 21117

(1) Mr. MacDonald beneficially owns 1,129,873 shares of common stock and 90,000 shares of voting Series "C" Preferred Convertible Stock. Mrs. Shirley D. MacDonald and Ms. Margaret E. MacDonald, wife and daughter of Mr. MacDonald, individually or jointly own 492,625 shares of stock.
(2) Certain Independent directors were issued a total of 3,500 shares of common stock and 12,500 options to buy common stock at $4.80, as compensation for their participation as Board Members in 2003.



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