



*Planting Seeds for
a Healthy Future*



ANNUAL REPORT 2013



Medifast®

A Healthy Appetite

Every story of growth begins with seeds. What began as chocolate, vanilla, and strawberry shakes in doctors' cabinets has grown into more than 90 Medifast products available online or through health care providers, Health Coaches, weight-loss centers, and international distributors.

Customers on the Medifast Program begin to feel it right away—the desire to fuel up with foods that help them slim down. And behind every pound lost, every inch whittled away, is a Medifast Meal replacement that promotes health.

This year, Medifast added seven new products to our respected line of meal replacements: Pineapple Mango Smoothie, Triple Berry Smoothie, Peanut Butter Chocolate Chip Chewy Bar, Cookie Dough Chewy Bar, Blueberry Muffin Soft Bake, Tomato Basil Bisque, and Ziti Marinara. And 2014 will move us into the Healthy Living territories, with launches of brand-new product categories, Lean & Green™ style meals, Infusers, a Maintenance line, technological alliances, and more.

What was planted as Medifast has blossomed into three burgeoning channels, with two more branches taking shape. And what was, in 2000, a \$3.9 million company has in just 13 years become firmly rooted, amassing more than \$356 million in annual revenue.



Letter to Shareholders

It's impossible to look at the future of weight loss apart from healthy living and wellness. The global weight-loss marketplace is constantly evolving with new competition, bringing a multitude of choices for calorie-conscious consumers. New trackers, apps, and accessories are entering the market, and consumers are exploring new weight-loss strategies in order to achieve their goals. At the same time, consumers are shifting their focus away from just immediate-term weight loss to wanting a more holistic approach for weight management, healthy living, and overall wellness.

These trends make it inherently clear that in order for Medifast to achieve long-term success, we must constantly evaluate our offerings in order to evolve with the times.

A PIVOTAL YEAR

In 2013, Medifast successfully managed our profit performance through a challenging environment. While we were able to achieve our profit targets, we did not see the traditional double-digit revenue growth to which we have become accustomed. In the coming year, our objective is to spark more aggressive revenue growth while we continue to improve our profitability.

Just two short years ago, we built our first five-year strategy plan and have made great strides in implementing many of our strategic initiatives across Take Shape For Life®, Medifast Direct®, Medifast Weight Control Centers®, and Medifast® Medical Providers. We have also advanced our strategic plan and continued to grow our functional expertise in finance, human resources, information technology, supply chain, marketing, and research and development. In particular, our team showed strong business management skills, as we generated increased operational efficiencies, resulting in an annual improvement in operating margin of 290 basis points in 2013.

We are committed to the long-term success of our brand and Company, and we are continually re-evaluating our strategies in order for us to grow. To this end, we've been updating and refining our five-year strategic plan to leverage our strengths and capitalize on the trends in the global competitive market. Processes are in place for evaluating the market, gathering consumer feedback, and planning and implementing our strategies for growth. We will continue to focus on our talent management efforts to develop our people and ensure we have the competencies we need to grow the company. We are energized and optimistic about Medifast's future and look forward to sharing some of the highlights with you.

2013 HIGHLIGHTS

In 2013, our net revenue was \$356.9 million, as compared to \$356.7 million in 2012. Despite nominal revenue growth, we are pleased to report earnings of \$1.73 per diluted share.

Net income for the fiscal year 2013 increased \$8.1 million to \$24.0 million, or \$1.73 per diluted share based on approximately 13.8 million shares outstanding, compared to net income of \$15.9 million, or \$1.16 per diluted share for the comparable period last year based on approximately 13.7 million shares outstanding. Fiscal year 2012 net income includes \$3.7 million from the previously disclosed FTC charge in the second quarter of 2012 and \$2.0 million net of tax sales tax accrual. Excluding these items, net income for fiscal year 2012 would have been \$21.6 million or \$1.57 per diluted share in 2012.

The Company's balance sheet remains strong with stockholders' equity of \$98.4 million and working capital of approximately \$64.9 million as of December 31, 2013.

Cash, cash equivalents, and investment securities for the year ending December 31, 2013 increased \$7.8 million to \$67.8 million compared to \$60.0 million on December 31, 2012.



2013 Happy Afters Winners

GROWTH STRATEGIES

We are focused on implementing strategies that will grow our products and programs and expand our scope in the healthy living arena. We will work to expand our offerings across all channels so we can play a more significant role in the consumer's journey from weight loss to weight management to healthy living. New technologies and new product categories will be introduced. The expansion of our distribution domestically and internationally is already underway.

Take Shape For Life® will continue in its role as the leading promoter of lifelong Optimal Health. We will increase the number of TSFL Health Coaches and create the tools, technologies, and programs to enable their success. We will continue the transition of our corporate Medifast Weight Control Centers® to franchises, encourage expansion from our current franchise owners, and add many new franchise partners. We'll grow our Medifast Direct® channel by excelling at e-commerce and implementing best digital marketing practices. And we will re-energize our heritage Medical Providers channel by adding new capabilities for our health professionals to offer weight-management solutions to their patients. Building on our successful relationship with Medix, our partner in Mexico, South America, and Central America, we will continue our international expansion. We will launch Medifast into Canada while we develop additional new partnerships to distribute our products in more countries. Our multi-channel model will continue to afford us a unique position in the market.

We will take full advantage of our vertically integrated operations and capitalize on our role as the manufacturer and wholesaler of highly effective and clinically proven weight-management products.

Many companies and their employees could benefit from Medifast Products & Programs, and we will work to make those possibilities a reality. Developing a corporate wellness offering will allow us to take advantage of opportunities created from health care policy changes.

Now that you've seen a snapshot of some of our growth strategies, we hope you're as excited about the future of Medifast as we are. The most important takeaway is this: our ability to change, adapt, and evolve will be critical to our success. We fully intend to not only go where the industry is headed, but lead the way in weight management, wellness, and healthy living.

Many thanks,



Michael C. MacDonald

Michael C. MacDonald

Executive Chairman of the Board and
Chief Executive Officer



Meg Sheetz

Margaret E. Sheetz

President and Chief Operating Officer



A Healthy Discovery

Take Shape For Life® (TSFL) is the direct-selling division of Medifast. Clients work with a free personal Health Coach, who guides them from weight loss through transition to maintenance and beyond, ultimately encouraging them to pay forward their good health by becoming Coaches themselves.

And to help more Clients make that transition and discover their own Optimal Health, we ushered in 2013 with the cover story in Success From Home Magazine. This 96-page February issue showcased TSFL's leaders and motivational gurus, including Take Shape For Life Medical Director and Co-founder Dr. Wayne S. Andersen.

In July, Dr. A's book, Discover Your Optimal Health, was published to rave reviews, reaching #4 on the New York Times Bestseller List (Advice and How-To category) and #1 on both Amazon's and Barnes & Noble's lists. The book followed a five-city tour—Chicago, Denver, Charlotte, Salt Lake City, and Minneapolis—in May and June.

Take Shape For Life's 11th National Convention, the largest ever, saw more than 3,125 registered Health Coaches converging on the Gaylord Opryland Resort in Nashville. There, more than 1,700 of them became certified or re-certified at Live Certification.

On September 12, we celebrated National Discover Your Optimal Health Day with one-mile walks held in more than 200 communities across the country. That day, we collectively traversed more than 19,000 miles on foot to promote the stemming of obesity's tide. And that evening, more than 900 Healthy Hours went even further to reverse its course.



2013 REVENUE: **\$228.7 MILLION**

A Healthy Self

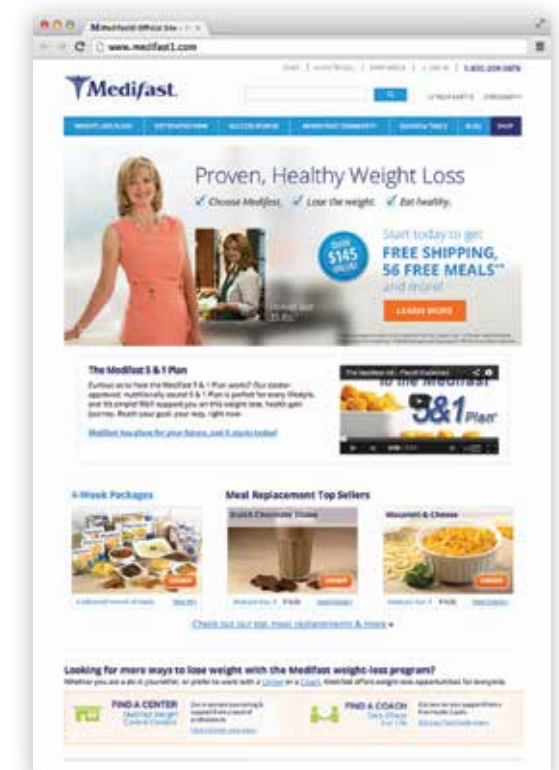
Medifast Direct® is the division for customers who prefer to order their products online at our website or by phoning our Client Solutions Center. This year, we continued to promote the idea of reaching **Your goal. Your way.™** and expanded on the flexibility of this self-guided approach.

We nurtured our social media sites to engage more of our customers and encourage sharing. We sponsored Google Hangouts with members of our Nutrition Support Team, filmed Medifast Meal Makeover segments, and got customers excited for new products with contests and promotional teasers. Also in 2013, we launched Medifast Minute, a newsletter featuring our best weight-loss stories of the week and other items of interest from our blog, Pinterest, and Facebook shares.

How do customers feel about Medifast? We know now, thanks to the L.O.V.E. (Listen, Observe, Validate, and Enhance) Program, which gains insight into our clients' experiences with everything from product taste to website interaction. Thanks to L.O.V.E., we're able to improve based on their direct input.

Finally, in November, we reached out to all channels with Fit & Festive Holiday Recipes, our campaign to keep customers motivated and on track throughout the food season. Giving them healthy options that included the flavors of the season, we encouraged them to stay on plan with almost-as-tempting but less-risky versions of holiday favorites. One recipe was shared each day from Thanksgiving through Christmas on Pinterest and Facebook, and the campaign was so popular that we continued making over favorites for holidays throughout 2014.

So while Medifast Direct is the channel for those who need less support, we continue to offer our customers *more*.



2013 REVENUE: **\$75.5 MILLION**

A Healthy Center

Customers who want in-person, highly structured support for weight loss, transition, and maintenance can find it here. Medifast Weight Control Centers® (MWCC) provide members with custom programs, including a body composition analysis, assessment of resting metabolism, measurements, counseling, and more. Center members can purchase food in their Center any time but find it most convenient to do so at one of their weekly one-on-one counseling sessions, which are held in a comfortable private office.

In 2013, MWCC was still *Here for You Before, During, and Beyond*®, emphasizing the consistent behavioral support given members by well-trained staff.

This year, we announced our intention to transition our corporate centers to the franchise model. We also initiated our work with marketing partners to help us attract interested, qualified business owners and see them through to becoming Medifast franchisees.

In late 2013, we added five new Centers through franchisees.



Through the Door®, our DR-TV spot, featured rotating offers that helped members find their healthy centers.

A Healthy Practice

Medifast® Medical Providers are licensed health care providers who recommend the Medifast Program to patients in their practice. So Medifast comes with not only a ringing endorsement from a medical professional but also support from that professional. Patients can buy meals directly from practitioners.

The best part about having trusted health care providers as partners is that they are now able to address the growing crisis of diabetes, heart disease, and hypertension with a proven, successful program that will help reduce the risk of obesity-related disease.

The Company offers extensive resources to assist providers, staff, and patients in achieving success on the Program. Medifast Medical Providers have access to marketing assets and training modules to help their practice grow.

Providers were also given new Provider Kits, with implementation tools based on industry best practices, a New Content Marketing Plan and customer engagement platform, and expanded marketing support.

This holistic approach enables the practice to expand services and help improve its patients' quality of life through lasting lifestyle changes.



2013 REVENUE: \$52.6 MILLION

(INCLUDES WHOLESALE PHYSICIANS AND INTERNATIONAL SALES TO PHYSICIANS AND WEIGHT CONTROL CENTERS)

A Healthy World

Our exclusive licensing agreement with Medix continued in 2013. Medix, a leader in obesity pharmaceuticals, was granted an exclusive license to distribute Medifast Products and Programs through physicians and Weight Control Centers in Mexico and Latin America under the Medifast brand.

In September, the Medifast/Medix partnership held the grand opening of the first international Medifast Weight Control Center in Mexico City. By the end of 2013, three centers were in full operation, including one in Bogota, Colombia, our first in South America.

In the next year, we will expand into Canada, where, by the end of 2014, we expect to have more than 50 products for sale.



Medifast has a strong foundation in science. Members of Medifast's Scientific Advisory Board represent a range of medical, nutrition, and scientific disciplines, and their specialties have included weight management, cardiology, nutrition, internal medicine, exercise physiology, and psychiatry, among others.

Our Scientific Advisory Board:

- Supports Medifast's clinical heritage and helps the company stay on top of emerging research and consumer trends
- Reviews the safety, effectiveness, and nutritional benefits of each Medifast Product and Program
- Offers guidance for specific populations such as nursing mothers, teens, seniors, and persons living with diabetes or gout

Our Distinguished Scientific Advisory Board

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Our Distinguished Board of Directors

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