Based upon the rules adopted by the Securities and Exchange Commission, in response to the Sarbanes-Oxley Act of 2002, Medifast, Inc., has implemented the following policies:

CODE OF ETHICS

Adopted September 2002

• We undertake and commit ourselves to personal and corporate growth.
• We dedicate ourselves to excellence, integrity and responsiveness to the marketplace.
• We will work together to enhance the value of our Company for our shareholders, vendors and customers, while honoring our obligations as corporate citizens of the communities in which we work and live.

DIRECTOR, OFFICER & EMPLOYEE TRADING POLICY

Adopted March 2003

• If a director, officer or any employee has material non-public information relating to our Company, it is our policy that neither that person nor any related person may buy or sell securities of the Company or engage in any other action to take advantage of, or pass on to others, that information.
• Insiders may purchase or sell MED securities if such purchase or sale is made within 30 days after an earnings announcement to include the 10-KSB, 10-QSB, and 8-K in order to insure that investors have available the same information necessary to make investment decisions as insiders.

DIRECTOR, OFFICER & EMPLOYEE INTERNAL CONTROL POLICY

Adopted April 2003

• Allows for the confidential receipt and treatment of complaints in regards to the Company's internal accounting controls and auditing matters.
• A director, officer or any employee may file a confidential and anonymous concern regarding questionable accounting or auditing matters to an independent representative of the Medifast Audit Committee.

Growth in 2002



MEDIFAST INC.
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OWINGS MILLS, MD 21117

800.638.7867
www.medifastdiet.com

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

Annual Meeting
Date: Friday, July 25, 2003
Place: American Stock Exchange
86 Trinity Place
New York, NY 10008

Independent Public Accountants
Wooden & Benson
Baltimore, Maryland

General Counsel
Michael Tanczyn
Towson, Maryland

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

Common Stock Market Listing
AMX:MED

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

Investor Relations
11445 Cronhill Drive
Owings Mills, MD 21117
(800)-638-7867
investment@medifastdiet.com

"ALL *growth* DEPENDS UPON ACTIVITY. THERE IS NO DEVELOPMENT PHYSICALLY OR INTELLECTUALLY WITHOUT *effort,* AND EFFORT MEANS *work.*"

~CALVIN COOLIDGE



PAST PRESENT FUTURE

MEDIFAST®

2002 ANNUAL REPORT

To Our Valued Shareholders



CEO Bradley T. MacDonald and Vice President of Operations Meg MacDonald ring the opening bell at the American Stock Exchange on January 16, 2003.

COMMON STOCK INFORMATION

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. The following is a list of the low and high bid quotations by fiscal quarters for 2002 and 2001:

2002 Quarter ended	Low	High
March 31, 2002	.23	1.00
June 30, 2002	.68	.90
September 30, 2002	.65	1.92
December 31, 2002	1.77	6.04

2001 Quarter ended	Low	High
March 31, 2001	.16	.44
June 30, 2001	.27	.45
September 30, 2001	.17	.40
December 31, 2001	.15	.33

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

(b) There were 1100 beneficial holders of the Company's Common Stock, as of November 4, 2002.

(c) No dividends on common stock were declared by the Company during 2002 or 2001.

March 2003

What an amazing year this has been for Medifast, Inc. In 2002, we set and met some very important goals. We are pleased to be able to provide favorable results for our shareholders at a time when many companies are feeling the effects of an economic downturn. Our passion has always been to help improve the lives and health of others. That is exactly what we are doing as we continue to focus on the fundamentals of weight and disease management. Medifast has been the leading weight and disease management brand of physicians for over 22 years. This year, we have realigned our momentum by emphasizing new thinking, new products, and new beginnings.

LEADERSHIP IN THE INDUSTRY

The Surgeon General estimates that over 97 million Americans are obese. Likewise, clinical obesity is a major epidemic in the U.S., adversely affecting over half of the population. Clinically proven at Johns Hopkins University, Medifast has been used by over 15,000 medical professionals to treat over 750,000 overweight patients. The Company continues to expand its product line over a health and wellness spectrum. In 2002, the Company manufactured and produced four new disease management products designed to provide affordable alternatives to traditional drug therapy. Medifast brand awareness continues to evolve through product development, line extensions, and the Company's emphasis on quality customer service, technical support and publications developed by the Company's marketing staff.

DISEASE MANAGEMENT AND NUTRITIONAL THERAPY

Medifast is the leader in the disease management and nutritional therapy industry with cutting edge branded products, pending patents and technologies. In 2002, Medifast rocked the pharmaceutical industry with the introduction of low-glycemic Medifast Plus for Diabetics. According to the American Diabetes Association, there are 16 million diabetics across the country. Diabetes is a chronic disease that has no cure and is the 5th leading cause of death in the United States. Medifast Plus for Diabetics shakes are high in soy protein and fiber, low in sugar and enriched with 24 essential vitamins and minerals including sodium and potassium to promote proper blood sugar levels. Medifast is currently conducting ground breaking clinical trials at the Johns Hopkins University Bloomberg School of Public Health with Medifast Plus for Diabetics. During the next two years, this study will demonstrate and prove the disease and weight management capabilities of Medifast Plus for Diabetics.

The Company continues to focus on high quality disease management products with the development of Medifast Plus for Joint Health. Over 43 million overweight and obese Americans are plagued with discomfort, pain and stiffness in their joints. Pain medications do not necessarily mend the damage or promote joint regeneration. Medifast Plus for Joint Health is formulated with high quality glucosamine and chondroitin which in studies have been shown to regenerate the cushioning components of the joints and other tissues and provide support and protection against further destruction of the joint.

Medifast Plus for Women's Health was designed to help a woman's body adjust naturally to the changes associated with menopause. Formulated with natural herbs and soy protein, Medifast Plus for Women's Health provides a safe and effective solution for many symptoms of menopause including hot flashes, night sweats, fatigue and irritability.

Medifast provides clinically tested and proven preventive nutritional solutions nationwide. The Company is revolutionizing the medical meal replacement industry with its high quality affordable nutritional therapy products. Medifast's Prescription for Life will continue to be "Your Physician's Answer to Weight and Disease Management."

STRATEGIC PARTNERSHIPS

We continue to exploit significant opportunities to grow our business outside the United States. In 2002, the Company announced a joint venture with Elken International of Malaysia in which the Company will manufacture Take Shape™ weight management products and programs for the Asian Market. Additionally, the Company signed a joint venture and distribution agreement with Hi-Tech Pharmacal to develop and produce retail diabetic meal replacement products under the DiabetiTrim™ brand name.

Management desires to develop strategic marketing relationships with third parties that have existing relationships with 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.

A DEFINITIVE MILESTONE

Medifast is committed to its shareholders, and that commitment includes doing all we can to ensure that Medifast's common stock is traded swiftly, reliably, and

transparently. In December 2002, Medifast changed its ticker symbol from OTCBB:MDFT to AMX:MED. The symbol change represents a new beginning for shareholders as the Company began trading its common shares on the American Stock Exchange. The listing will provide for a more orderly market with less volatility and provide more liquidity for our investors. Medifast's listing on the American Stock Exchange will furthermore increase its visibility and credibility to institutional investors.

NEW SUBSIDIARIES

Take Shape for Life, Inc. - The Company implemented Take Shape for Life, Inc., a Delaware Corporation and a wholly owned subsidiary of Medifast, Inc in September 2002. This program is a comprehensive, medically supervised virtual clinic designed to assist in long-term weight loss and disease and lifestyle management featuring Medifast weight and disease management products.

Take Shape for Life health advisors are supported, educated and certified by The Health Institute, a dedicated training institute staffed by Medifast medical professionals. Health Advisors may obtain Medifast certification based upon a testing of their knowledge of the Medifast programs and product lines. They recruit entrants and provide them with guidance, samples and program support. The number of qualified and trained health advisors presently exceeds 2000 and management plans for a very rapid expansion.

Seven Crondall, LLC - In July 2002, Medifast, Inc., purchased the building and grounds of 11445 Cronhill Drive, Owings Mills, Maryland through the acquisition of Seven Crondall Associates, a Maryland Limited Liability Company. The building is an FDA approved manufacturing facility, which was previously leased by the Company. The plant has a capability for much higher output without significant capital expenditures. The purchase of the manufacturing facility helps assure Medifast, Inc.'s, future in a state of the art food and pharmaceutical grade manufacturing facility.

Jason Enterprises, Inc. - Founded in January 2003, Jason Enterprises, Inc., owns the intellectual property of the Company, which consists of the Medifast trademarks and patents. This subsidiary also imports health related items such as a body composition analyzer, a digital thermometer, a touch screen blood pressure monitor, a digital scale, and a digital ear thermometer from the Far East to support Medifast's weight management business and act as a domestic and international sales and marketing agent for the Company.

Jason Properties, LLC - Medifast created Jason Properties, LLC to implement the MEDSLIM Program, which provides licensing opportunities for its medically prescribed weight control program. The Company anticipates that over the next two years at least 100 clinics across the country will be fully engaged. The MEDSLIM program offers a competitive marketing edge through a regional advertising program providing exclusive territories, marketing support, and web-based patient referrals.

"Medifast has been the leading disease and weight management brand of physicians for over 22 years. This year, we have realigned our momentum by emphasizing new thinking, new products, and new beginnings."

"Continuous improvement in our state of the art business model will generate incremental earnings in the future and increase shareholder value in the near term."

MEDIFAST COACH: DICK VITALE

Celebrity Sportscaster and former basketball coach, Dick Vitale has joined the Medifast team to assist in promoting a healthy lifestyle using Medifast weight and disease management and clinical sports nutrition products. Dick will participate in a comprehensive advertising and promotional campaign for the next three years which highlights his persuasive skills to convince and coach Americans to lose weight and get in shape using Medifast.

THE FUTURE

We are pleased with our 2002 operating performance. Our Company has demonstrated extraordinary resilience in periods of economic downturn. Our talented, technology proficient and dedicated management team has developed sales and marketing solutions for Medifast for the managed care environment in the new millennium. Continuous improvement in our state of the art business model will generate incremental earnings in the future and increase shareholder value in the near term.

The year ahead is full of challenges. This year, the Company will continue to improve operations, build profitable revenues and market share as we increase shareholder value. I believe today, as strongly as I ever have, that Medifast, Inc., will succeed because we have the five key ingredients necessary for a Company to excel in today's tough economy: a highly-trained and disciplined management team, talented and dedicated employees, superior technology, participation in the $5 billion medical meal replacement market, and sufficient capital to execute our business plan.

I believe that Medifast is stronger than ever before. Our growing and diverse distribution base, advanced product development program, powerful strategic partnerships and, above all, our talented and dedicated staff are creating for you, our shareholders, a Company that will increase in value and build a better future for our customers. As we look forward, we will focus all of Medifast's efforts into becoming the leader in the medical meal replacement industry. Competition is fierce and will get more intense in the coming years. We are determined to move forward to expand our success and to realize the full potential of the phenomenal products and programs we provide.

Warmest Regards,



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

growth in...



PRODUCT DEVELOPMENT

Medifast has built its reputation on clinically proven weight loss. The Company has recently expanded its product line across a wellness spectrum to include disease management products. The Company's product development program has and will continue to produce nutritional products positioned to significantly reduce the incidences of and cost associated with obesity, diabetes, arthritis, menopausal symptoms, and coronary disease.

"Intelligence and skill can only function at the peak of their capacity when the body is healthy and strong." ~ John F. Kennedy

Traditionally, Medifast was a medically supervised weight loss program, which specialized in multidisciplinary patient education programs using the highest quality meal replacement supplements. Medifast's core programs and products have recently expanded over a wellness spectrum to include disease management and sports performance products. Medifast is particularly focused on disease management with the launch of Medifast Plus for Diabetics, Medifast Plus for Women's Health and Medifast Plus for Joint Health. The Company is also focusing on clinical sports nutrition with the launch of 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, which offers gender specific formulas offering protein and 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 very 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. Most provide high-quality soy protein and essential vitamins and minerals, as well as other nutrients essential for good health. Medifast® products have been tested and proven to be effective for weight management in clinical studies conducted by the U.S. government and Johns Hopkins University.



Management's mission is to position the Company to become a leader in the field of medically supervised nutrition, disease and weight management, and health-related nutrition programs.

2002 NEW PRODUCTS

Medifast Plus for Diabetics

This segment of the Medifast product line has been specially formulated to meet the demanding nutritional needs of diabetics. The soy-based meal replacement shakes are low sugar, low calorie, low fat, low cholesterol, rich in calcium and iron and an excellent source of fiber. The revolutionary products are enriched with 24 essential vitamins and minerals, are high in soy protein and have a low glycemic index. The extensive line includes chocolate, vanilla and strawberry shakes; homestyle chili; oatmeal; chicken noodle, cream of broccoli and cream of chicken soups; and chocolate and peanut butter nutritional bars. The Company has a patent pending on its line of diabetic shakes.

Many Medifast Plus for Diabetics products have earned the coveted Seal of Approval from the Glycemic Research Institute (GRI). The Seal of Approval from the Institute designates that a food does not overly stimulate blood glucose and insulin and does not stimulate fat-storing enzymes. Persons with insulin-related disorders, such as Diabetes and Hypoglycemia look for the GRI Seal of Approval when selecting insulin-friendly products.

The Johns Hopkins Bloomberg School of Public's Health Nutrition and Health Research Clinic is conducting a two-year clinical study to evaluate the efficacy of the dosage-controlled, engineered food, Medifast Plus for Diabetics compared to a standard American Diabetes Association (ADA) weight loss treatment program using whole foods, in terms of changes in weight loss in men and women who suffer with overweight and type II diabetes. The results are to be presented showing the cost savings of using the Medifast program.

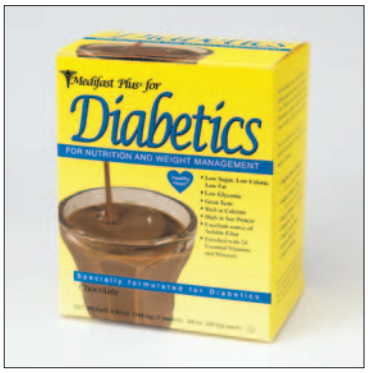
With an estimated 17 million diabetics in the U.S., the market potential for this product line appears to be substantial. Furthermore, the line is not expected to exhibit a seasonal sales pattern, which would help offset the seasonality of the Company's diet products.

Medifast Plus for Appetite Suppression

This is a low calorie, low fat meal replacement containing a variety of vitamins and minerals that is high in calcium and soy protein. The source of appetite suppression is derived from Super Citrimax™ and Medifiber™, which are natural ingredients designed to curb appetite while maintaining consistent weight loss. Super Citrimax™ is a natural product extracted from the dried pericarp rind of Garcinia Cambogia, a South Asian fruit. It contains a hydroxycitric acid (HCA) that studies indicate reduces appetite and provides the body with the biochemical means to help control weight by balancing blood lipid levels and energy metabolism. Medifiber™ is a natural ingredient derived from the skin and pulp of selected fruit. It has been clinically shown to lower cholesterol and suppress appetite.

Medifast Plus for Joint Health

Many Americans are plagued with discomfort, pain and stiffness in their joints. Pain medications help relieve symptoms but do not necessarily mend the damage or promote joint regeneration. Medifast Plus for Joint Health is a specially designed meal-replacement supplement formulated with high quality glucosamine and chondroitin. Glucosamine is a nutrient shown in studies to help regenerate the cushioning components of joints and other tissues. Studies have indicated that



Medifast Plus for
DIABETICS



Medifast Plus for
APPETITE
SUPPRESSION



Medifast Plus for
JOINT HEALTH



Medifast Plus for
WOMEN'S
HEALTH



CLINICAL SPORTS
NUTRITION



HOMESTYLE
CHILI

chondroitin helps draw more moisture into cartilage to provide support and protection against further destruction of the joint. For optimal joint health, Medifast Plus for Joint Health should be taken three times a day as part of an overall Medifast program. It can also be used as a snack or occasional meal replacement.

Medifast Plus for Women's Health

Medifast Plus for Women's Health is a soy-based meal replacement that provides a safe and effective solution for women who are suffering from the symptoms associated with menopause. It is formulated with the natural herbs black cohosh, chaste tree berry, and echinacea purpurea, which studies have shown may reduce menopause symptoms. Research suggests that black cohosh (cimicifuga racemosa) provides hormonal support during menopause and may also reduce hot flashes and mood swings. Studies also suggest that chaste tree berry (vitex agnus castus) may help balance hormone levels. Echinacea purpurea (purple cone flower) is known for its ability to strengthen the immune system. In menopause, echinacea purpurea may fight off recurrent vaginal and bladder infections as some studies suggest. Additionally, clinical studies have noted the benefits of soy for years including its ability to decrease negative symptoms such as hot flashes, night sweats, fatigue and irritability.

Clinical Sports Nutrition

The Company markets Take Shape™ Pro Drinks for enhanced fitness and performance to particularly active individuals and athletes. The drinks are formulated with high-quality protein, added BCAAs (branched chain amino acids), antioxidants, chromium glutamine, carnitine and more. The Take Shape nutrition line was formulated by a physician to ensure that athletes achieve optimal performance and get noticeable results. These drinks are recommended as meal replacements or as snacks before, after or between workouts. Take Shape Sports Nutrition provides the fuel to make a body great!

Homestyle Chili

In 2002, Medifast developed Homestyle Chili, which contains 11 grams of total protein, 7.2 of which come from soy, 4 grams of dietary fiber, 1 gram of fat, 20%-50% of USRDA for vitamins and minerals and only 110 calories per serving.

Looking Ahead

The Company plans to market a variety of non-nutritional, healthcare accessories to support its weight management business. These products include a blood pressure monitor, digital thermometers, a body fat analyzer and a digital scale. Many of these products will be sourced in the Far East. Management is evaluating other products for possible marketing opportunities, with an eye toward offering high-quality products at low prices.

The Company is planning the launch of its cutting edge adolescent weight management product, Fit!™ in 2003. Roughly 13% of children ages 6 to 11 and 14% of adolescents aged 12-19 were overweight in 1999. Medifast, Inc., recognizes the danger of this trend and is preparing to enter the market of nutritional supplements for adolescents.

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 such as diabetes and coronary health.

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MARKETS & COMPETITION

According to the American Obesity Association, consumers spend about $30 billion per year trying to lose weight or prevent weight gain. The U.S. market for meal replacement products is approximately $26 billion annually, and sports nutrition represents an additional $500 million or so. Furthermore, the U.S. weight loss and diet control market increased 6.7% and 4.7% in 2000 and 2001, respectively.

"A global epidemic of obesity is taking over many parts of the world, causing millions to suffer from an array of serious health disorders."
~ World Health Organization

Obesity is a complex, multi-factorial chronic disease and is the second leading cause of preventable death in the United States. According to the World Health Organization's 2000 statistics, more than 1 billion individuals are overweight. The International Obesity Task Force has estimated that 60% of the U.S. population is overweight, and a 2001 survey by market researcher NPD Foodworld reported that 63% of U.S. people responding to a survey wanted to lose 20 or more pounds. An estimated 10% of the people are clinically obese (defined as having 25 to 40 pounds of excess weight), and an additional 15% are morbidly obese (40 or more pounds of excess weight). Research has linked obesity to serious diseases, including some forms of cancer, diabetes, infertility, liver disease and heart disease.

According to the American Obesity Association, consumers spend about $30 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 U.S. market for meal replacement products is approximately $26 billion annually, and sports nutrition represents an additional $500 million or so. Furthermore, the U.S. weight loss and diet control market increased 6.7% and 4.7% in 2000 and 2001, respectively.

Medifast offers meal replacement programs that can be a solution to the problem of obesity. These programs provide a clinically proven approach to weight loss and long-term weight maintenance. Medifast programs use the concept of a very low calorie intake with a high proportion of soy-protein, allowing the body to lose weight rapidly while maintaining muscle tissue. The products are formulated with high-quality, low calorie, low fat ingredients and have been clinically proven to afford safe and effective nutritional solutions.

Medifast's offers meal replacement programs that can be a solution to the problem of obesity.



Medifast's current business model incorporates three channels of distribution, similar to a three-legged stool:

The Medifast Lifestyles Program

This program is a medical network of health care professionals that support patients on the Medifast program. Having the support of a Medifast Lifestyles physician or qualified medical practitioner increases Medifast success rates and ensures that each individual receives personalized attention throughout their weight loss program. Since 1980, management estimates that more than 15,000 physicians nationwide have used Medifast as a treatment for their overweight patients and that an estimated 750,000 patients have used its products to lose and maintain their weight.

The Company maintains an in-house Lifestyles program for customers who do not have a Medifast physician. These qualified medical practitioners coordinate supervision of the Medifast program with the patient's primary care physician. They also offer free Medifast program support. These practitioners are available via telephone or e-mail when patients feel that they need some extra encouragement or if they have questions or concerns relating to the Medifast program.

Take Shape for Life™

On September 1, 2002 the Company announced the implementation of Take Shape for Life, Inc., a Delaware Corporation and a wholly owned subsidiary of Medifast, Inc. This program is a comprehensive, medically supervised virtual clinic designed to assist in long-term weight loss and disease and lifestyle management featuring Medifast weight and disease management products.

Program entrants are encouraged to consult with their primary care physician and Take Shape for Life health advisors for screening purposes. These advisors are supported, educated and qualified by The Health Institute, a dedicated training institute staffed by Medifast professionals. These professionals obtain Medifast qualification based upon a testing of their knowledge of the Medifast programs and product lines. They recruit program entrants and provide them with guidance and Medifast product samples. The number of qualified and trained health advisors presently exceeds 2,000 and management plans for a very rapid expansion.

Traditional Physicians and Clinics

Many Medifast physicians chose to implement and support the Medifast program completely within their practice. These physicians carry an inventory of product and provide appropriate testing, medical support and patient evaluations. In addition, the Company implemented the MEDSLIM program, which allows licensing opportunities for its medically prescribed weight management program. The program offers a competitive marketing edge through a regional advertising program, on-site training, exclusive MEDSLIM territories, marketing support, and web-based patient referrals.

Medifast offers meal replacement programs that can be a solution to the problem of obesity. These programs provide a clinically proven approach to weight loss and long-term weight maintenance.

COMPETITION AND RISK

The Company's efforts are directed toward further penetration of the growing $26 billion meal replacement market. The most significant competition for meal replacements is individuals' do-it-yourself diet plans. A 2000 Gallup study found that 71% of people attempting to diet did so on their own. Many gravitate from one popular fad program to another. In view of the fact that such individuals 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. To 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 by the retail oriented SlimFast Food Company (Unilever), which has a strong mass-market foothold in retail markets. Medifast management estimates that SlimFast sales are running at a $700 million annual rate. SlimFast retail products generally have a higher caloric and sugar content than comparative Medifast medical meal replacement products.

Weight Watchers International and Jenny Craig, Inc. (privately held) sell low-calorie, pre-packaged meals. Weight Watchers helps to generate demand for those products by hosting pay-as-you-go meetings, and it generates significant fees from those meetings.

There are only a few competitors making use of medical liquid meal replacements or weight management products. The companies include OptiFast (a division of Novartis Nutrition Corporation) and Robards, Inc., (Food Sciences Corporation, Inc.)

Medifast is the only complete line of weight and disease management products offered in a clinical setting that boasts "Your Physician's Answer to Weight Management" and offers a complete selection of 90-160 calorie products. The Company has a premier advantage over its competition because it has been on the cutting edge of product development with soy protein and weight management products since 1989. The Company's philosophy is "eat a nutritious meal or replace it with Medifast."

The Company is a defendant in a lawsuit with its competitor Robards, Inc. / Food Sciences Corporation, Inc. pertaining to what Robards, Inc. / Food Sciences Corporation alleged were slanderous and untrue statements made to its customers. The Company filed a Counterclaim and Third Party Claim, alleging conspiracy to damage the Company's business and trademarks, trademark infringement, violations of the Millennium Copyright Act, business defamation, as well as other claims. Robards and Medifast both claim damages in excess of $75,000. The Company also claims that selected third party defendants also conspired to damage the reputation and quality of the Medifast brand. The Company intends to vigorously defend its reputation of ethical integrity (integrity of its products and formulas) and its trademarks.

Medifast is the only complete line of weight and disease management products offered in a clinical setting that boasts "Your Physician's Answer to Weight Management" and offers a complete selection of 90-160 calorie products.

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MANUFACTURING

Product labeling, quality control, manufacturing processes and equipment are subject to regulations and inspections mandated by the Food & Drug Administration (FDA), the Maryland State Department of Health and Hygiene, and the Baltimore County Department of Health.

"When you see the value of continued growth, the circumstances around you become stepping stones." ~ Clyde M. Narrimore

Jason Pharmaceuticals, Inc., the Company's wholly owned manufacturing subsidiary, produces most of the Medifast products in a 49,000 square-foot state-of-the-art food and pharmaceutical-grade facility in Owings Mills, Maryland. Currently, the Company out-sources its bars and ready-to-drink products, but plans to add an internal production line for bars and soups in 2003.

The formulation, processing, packaging, labeling and advertising of the Company's products are subject to regulation by several federal agencies, but principally by the Food and Drug Administration (the "FDA"). The Company must comply with the standards, labeling and packaging requirements imposed by the FDA for the marketing and sale of 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 are also 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 manufactures private label products that are packaged in accordance with customers' specifications and sold both domestically and in foreign countries through their own distribution channels.

The plant strictly adheres to all Good Manufacturing Practices (GMP) and has maintained its status as an "OU" (Orthodox Union) Kosher-approved facility since 1982. Additionally, the plant has the capability for much higher production output without substantial capital expenditure. It is presently operating on only a single shift. Adding one additional shift would enable the Company to produce enough product to generate over $50 million in sales if needed in 2003.



Aerial view of Jason Pharmaceuticals, Inc. state-of-the-art pharmaceutical-grade facility located in Owings Mills, Maryland.

Adding one additional shift would enable the Company to produce enough product to generate over $50 million in sales if needed in 2003.

growth in...



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.

"Business has only two functions - marketing and innovation."
~ Milan Kundera

The marketing department is staffed by a highly educated dynamic team of professionals who work closely with medical and technical staff in the development of cutting edge support materials, advertising and internet marketing strategies and management of intellectual properties, patents, and clinical distributors. In addition, the team works with medical and technical staff in the development of product packaging, product labeling, creative initiatives and website development. The marketing department develops sales and marketing campaigns, support materials and strategies for all subsidiaries of Medifast, Inc.

The Company has created a Clinical Affairs division led by a team of seasoned sales professionals. The department is responsible for prospecting larger accounts, clinics, hospitals, and HMOs and has been instrumental in the development of the clinic-licensing program, MEDSLIM. In addition, the department pursues new physicians and clinics and supports the existing practitioner base.

The Company is committed to the continuous improvement of its business model which provides physicians a variety of dynamic programs ranging from buying and reselling products out of their offices to directing patients to order from the Company while receiving generous compliance fees for program supervision.

The Company launched an updated website in 2002 which provides consumers with advanced information regarding the Medifast program and an online database of participating Medifast practitioners. In addition, customers may receive discounts using promotional codes from advertising. The website now offers an extensive product FAQ, company history, information for investors, customer order histories and overall ease of use for consumers. The Company will continue to make improvements to its website and will specialize its site to offer more consumer and technical information and easier ordering capabilities as it continues to develop products in new categories.

The primary advertising medium used to attract customers will continue to be print magazines.



Example of print advertisement

The primary advertising medium used to attract customers to its teleweb operation will continue to be print magazines e.g. Parade and Newsweek. The Company will place increased emphasis in 2003 on integrated advertising, public relations and investor relations strategies. The Company will continue to expand its advertising efforts as sales and marketing spending will grow dramatically in 2003. The Company also plans to move beyond print publications into radio and local cable television. 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 in order to assist in promoting a healthy lifestyle using the Company's weight and disease management and sports nutrition products. The Company is developing a comprehensive advertising and promotional campaign that will feature Mr. Vitale, as the Medifast spokesperson to encourage American's to lose weight and get in shape. The campaign's theme will be "You Lose and You Win with Medifast."

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 2002. The Company is planning to increase its exposure in the clinical market by attending a broader variety of 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.

The Company has installed major hardware, software, and data communications equipment and services including new accounting and customer service interfaces at a cost exceeding $300,000 in 2002 to support its new business model. The Company has also enhanced its network capability and security systems. Computer hardware and software and data communications hardware and software were financed by an equipment lease. Xerox installed the latest digital printing equipment allowing the Company to not only tailor and customize materials, but also enhance its direct mail initiatives to its diverse medical practitioner base and direct customers saving the Company over $300,000 in custom printing costs.

"Medifast is Awesome Baby! With Medifast You'll Never Look or Feel Better!"
~ Coach Dick Vitale



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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.

MEDIFAST INC. 2002 FINANCIALS

MANAGEMENT'S DISCUSSION AND ANALYSIS 2002 COMPARISON WITH 2001

OPERATING

Consolidated net sales for 2002 were $12,345,000 as compared to 2001 sales of $5,022,000, an increase of $7,323,000, or 146%. 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 and (c.) the Take Shape for Life health network sales.

Gross margins increased to 70% in 2002 from 56% in 2001, 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 $6,906,000 for 2002 were $4,840,000 more than the $2,066,000 in 2001, 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 costs.

In 2002, the Company realized a tax benefit of $925,000 as a result of previous net loss carryforward.

Interest expense decreased by $139,000 due to the Company's decreased borrowings.

A preferred stock dividend in the amount of $93,000 was accrued to shareholders in 2002.

The Company experienced income from operations for the year 2002 of $1,752,000. This compares with income from operations of $745,000 in 2001, an increase of 135%. The profit from operations is attributed to the increased sales to physicians and clinics, the successful launch of TSFL, increased national advertising, improved gross margins and more direct patient sales via the Internet and the 800-telephone number supporting the Medifast® physician network and their patients directly.

The successful implementation of the Medifast® strategic plan to focus only on the clinical weight management business while leveraging a new digital network tied into the Internet propelled the Company into a new profitable business model. The Medifast, Inc. name change two years ago was more substance than formality since it signified the Company's focus on its branded clinical weight management business. The new business model has brought back many medical practitioners and patients and has the capability to build profitable revenues with a stable customer base.

LIQUIDITY AND CAPITAL RESOURCES

On July 26, 2002 Jason Pharmaceuticals purchased Seven Crondall Associates, a Maryland Limited Liability Company which owns the assets of the building and grounds of 11445 Cronhill Drive, Owings Mills, Maryland. The building is an FDA approved manufacturing facility. Medifast purchased the LLC for Three Million Four Hundred Thousand Dollars ($3,400,000). The mortgage loan for $2,850,000 has a 15-year maturity and carries an interest rate of LIBOR plus 275 basis points.

On July 26, 2002 Jason Pharmaceuticals opened a $550,000 revolving line of credit at the Prime rate, with Mercantile-Safe Deposit and Trust Company.

The purchase of the manufacturing facility and the new revolving credit line gives the Company the necessary financing to fund its growth and business plan while securing its future in a state of the art food and pharmaceutical grade manufacturing facility.

On September 1, 2002, the Company announced the implementation of Take Shape for Life, Inc., a Delaware Corporation, which is a wholly owned subsidiary of Medifast, Inc. This is a dynamic health network and marketing program that is dedicated to providing disease and weight management solutions through qualified and trained health advisors and professionals across the United States. Management anticipates that this program should double in size over the next twelve to eighteen months given that new physicians and health advisors are enrolled from the Company's efforts and its database, which already contains over 15,000 medical professionals. Based on historical trends, management estimates that approximately 15% of the physicians and health advisors will be converted into the health network. This program currently has 40 physicians and 2000 certified and trained health advisors. An Executive Team of experienced professionals are tasked with leading this dynamic sales and marketing organization.

The Company has recently formed Jason Properties, LLC, a Delaware Limited Liability Company which is a wholly owned subsidiary of Medifast, Inc. Jason Properties, LLC., introduced the implementation of the MEDSLIM® Program, which allows licensing opportunities for its medically prescribed weight control program. Since 1980, the Company estimates that over 15,000 physicians nationwide have used Medifast as a treatment for their overweight patients and that an estimated 750,000 patients have used its products to lose and maintain their weight. The new MEDSLIM® Program has signed up two functioning clinics during the fourth quarter of 2002. The Company anticipates that over the next three years at least 100 clinics across the country will be fully engaged. The program offers a competitive marketing edge through a regional advertising program providing exclusive territories, marketing support, and web-based patient referrals.

Founded in January 2003, Jason Enterprises, Inc., a Texas Corporation and wholly owned subsidiary, owns the intellectual property of the Company, which consists of the Medifast, Inc., Trademarks and Patents. This subsidiary will also import health related items from the Far East to support its weight management business and act as a domestic and international sales and marketing agent for Medifast, Inc.

On September 23, 2002, the Company announced a joint venture with Elegant World SDN BHD (Elken) of Malaysia. The venture calls for Medifast, Inc. to manufacture its Take Shape™/Dr. Diet weight management products and programs for the Asian market. Medifast Take Shape products were selected in the four-year U.S. government National Institute of Health (Doctor Koop Study) weight management study at the University of Vermont, and achieved significant weight loss results. The Company has received large orders for the Take Shape™, product and anticipates continuous orders in the upcoming quarters, supporting their efforts to launch this clinical product in Asia. It is anticipated that this business will exceed $2 million in 2003.

In the Fall of 2001, the Company was authorized to issue 1,000,000 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. The Company issued $93,000 in dividends for Series "C" in 2002.

In January 2000, The Company issued 552,757 shares of series "B" convertible preferred stock at $1.00 per share convertible at 75% of the market value of the stock or a maximum of $0.50 per share. This venture capital funding by "D.S. Capital Investors" provided the "turn around" capital to keep the Company from filing bankruptcy allowing it to pay its obligations after divesting its losing subsidiaries. In March 2002, prior to his election to the Board, the Company authorized the issuance of 44,000 shares of Series "C" convertible preferred for investment advisory services related to the Series "B" and Series "C" preferred to Mr. David Scheffler. In addition, the Company issued 100,000 options priced at $.50 to restructure the Company's balance sheet and provide consulting services in changing the terms of Series "B" stock by removing the "Spiral Preferred" provision and reducing the voting shares to 2 votes per share held, which was perceived to be a negative by new investors. The Company issued 128,524 warrants at $0.35 to the Series "B" shareholders for the agreement to change the terms and conditions of the offering that was more favorable to the Company.

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Medifast, Inc.

We have audited the consolidated balance sheet of Medifast, Inc. and its subsidiaries as of December 31, 2002, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the 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, 2002, and the consolidated results of their operations and their consolidated cash flows for the years ended December 31, 2002 and 2001 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,	**2002**	2001
Net sales	**$ 12,345,000**	$ 5,022,000
Cost of sales	3,687,000	2,211,000
Gross profit	8,658,000	2,811,000
Selling, general and administrative expenses	6,906,000	2,066,000
Income from continuing operations before other income (expenses)	1,752,000	745,000
Other income (expenses):		
Interest and other financing expense, net	(101,000)	(240,000)
Other income	47,000	61,000
	(54,000)	(179,000)
Net income before provision for income taxes	1,698,000	566,000
Provision for income tax benefit	925,000	22,000
Net income/comprehensive income	2,623,000	588,000
Less:		
Preferred Stock dividend requirement	218,000	52,000
Accretion of difference between carrying amount and redemption amount of redeemable preferred stock	0	10,000
	218,000	62,000
Net income attributable to common stockholders	**$ 2,405,000**	$ 526,000
Basic earnings per share	**$ 0.36**	$ 0.08
Diluted earnings per share	**$ 0.30**	$ 0.07
Weighted average shares outstanding – basic	6,722,505	6,524,969
– diluted	8,737,292	8,069,646

See accompanying notes

CONSOLIDATED BALANCE SHEET

December 31,	**2002**
Assets	
Current assets:	
Cash	$ 837,000
Certificates of deposit	418,000
Accounts receivable - Net of allowance for doubtful accounts of $55,000	284,000
Inventory	1,259,000
Prepaid expenses and other current assets	249,000
Deferred tax asset	1,079,000
Total current assets	4,126,000
Property, plant and equipment – net	4,498,000
Trademarks and intangibles	608,000
Other assets	1,000
Deferred tax asset	655,000
Total assets	**$ 9,888,000**
Liabilities And Stockholders' Equity	
Current liabilities:	
Accounts payable and accrued expenses	1,189,000
Dividends payable	25,000
Line of credit	91,000
Current maturities of long term debt	304,000
Total current liabilities	1,609,000
Long term debt less short-term portion	2,701,000
Total liabilities	4,310,000
Stockholder's Equity:	
Series B convertible preferred stock; stated value $1.00; 600,000 shares authorized; 521,290 shares issued and outstanding	521,000
Series C convertible preferred stock; stated value $1.00; 1,015,000 shares authorized; 985,000 shares issued and outstanding	985,000
Common stock; par value $.001 per share; 15,000,000 shares authorized; 7,204,693 shares issued and outstanding	7,000
Additional paid-in capital	9,613,000
Accumulated deficit	(5,381,000)
	5,745,000
Less: Cost of 30,178 shares of common stock in treasury	(167,000)
	5,578,000
Total Liabilities And Stockholders' Equity	**$ 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 $.001 Amount	Additional Paid-In Capital	Accumulated Deficit	Total	Treasury Stock
Balance, December 31, 2000	552,757	$553,00	0	$0	6,524,531	$7,000	$8,972,000	($8,322,000)	$1,210,000	$0
Common Stock issued to employees and directors					40,000		9,000		9,000	
Issuance of Series C Convertible Preferred Stock			849,000	849,000			(56,000)		793,000	
Dividend on Preferred Stock								(52,000)	(52,000)	
Accretion of difference between carrying amount and redemption amount of redeemable preferred stock							(10,000)		(10,000)	
Net Income								588,000	588,000	
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 and 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**	**($5,381,000)**	**$5,745,000**	**($167,000)**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31,	2002	2001
Cash Flows From Operating Activities:		
Net income	$ 2,623,000	$ 588,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities from continuing operations:		
Depreciation and amortization	321,000	211,000
Non-cash directors compensation	54,000	-
Common stock issued for services	41,000	9,000
Series "C" Preferred issued for services	24,000	-
Deferred income tax benefit	(925,000)	(22,000)
Changes in:		
Accounts receivable	(1,000)	(31,000)
Inventory	(619,000)	(29,000)
Prepaid expenses and other current assets	(173,000)	(73,000)
Other assets	199,000	26,000
Accounts payable and accrued expenses	912,000	(28,000)
Net cash provided by operating activities	2,456,000	651,000
Cash Flows From Investing Activities:		
Maturities of certificates of deposit	319,000	100,000
Investment in certificates of deposit	(409,000)	(200,000)
Proceeds from sale of property and equipment	4,000	-
Purchase of building	(3,451,000)	-
Purchase of intangible assets	(505,000)	-
Purchase of property and equipment	(526,000)	(46,000)
Net cash (used in) investing activities	(4,568,000)	(146,000)
Cash Flows From Financing Activities:		
Redemption of Series A preferred stock	(150,000)	(170,000)
Issuance of Common stock	59,000	-
Issuance of Series C convertible preferred stock	102,000	250,000
Repayment of capital lease obligations	(23,000)	(27,000)
Increase (decrease) in credit line (net)	91,000	(269,000)
Principal repayments of long-term debt	(374,000)	(85,000)
Proceeds from long-term debt	3,070,000	16,000
Dividends paid on preferred stock	(94,000)	(52,000)
Purchase of treasury shares	(2,000)	-
Net cash provided by (used in) financing activities	2,679,000	(337,000)
Net Increase In Cash And Cash Equivalents	567,000	168,000
Cash and cash equivalents - beginning of the year	270,000	102,000
Cash And Cash Equivalents End Of The Year	**$837,000**	$270,000
Supplemental Disclosures Of Cash Flow Information:		
Interest paid	$90,000	$227,000
Taxes paid	-	-
Supplemental Disclosures Of Non Cash Investing And Financing Activities:		
Conversion of Series A preferred stock to Series C	$0	$315,000
Common stock issued for services	41,000	-
Common stock issued to directors	54,000	9,000
Conversion of subordinated notes payable to Series C convertible preferred stock	-	256,000
Conversion of accrued expenses to Series C convertible preferred stock	-	8,000
Series C convertible preferred stock issued to officer	20,000	20,000
Options issued to non-employees	69,000	-
Warrants issued to preferred stockholders	71,000	-

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

1. Description of Business

Medifast, Inc.'s (the "Company") operations are primarily conducted through two of its wholly owned subsidiaries, Jason Pharmaceuticals, Inc., ("Jason") and Take Shape for Life ("TSFL"). The Company is engaged in the manufacturing and distribution of Medifast®, branded and private label weight management products. These products are sold through physicians, supported by the Internet, diet centers and other 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.

The Company has dramatically improved its profitability and financial prospects by focusing on international joint ventures, product development, the launch of Take Shape for Life, Inc., and increasing its advertising expense. The following financial transactions have provided the liquidity and stability for the Company to successfully execute its business plan:

On July 26, 2002 Jason Pharmaceuticals opened a $550,000 revolving line of credit at the prime rate, with Mercantile-Safe Deposit and Trust Company.

On September 1, 2002 the Company announced the implementation of Take Shape for Life, Inc., a Delaware Corporation, which is a wholly owned subsidiary of Medifast, Inc. This is a dynamic health network and marketing program that is dedicated to providing disease and weight management solutions through qualified and trained health advisors and professionals across the United States. Management anticipates that this program should double in size over the next twelve to eighteen months given that new physicians and health advisors are enrolled from the Company's efforts and its database, which already contains over 15,000 medical professionals. Based on historical trends, management estimates that approximately 15% of the physicians and health advisors will be converted into the health network.

On September 23, 2002 the Company announced a joint venture with Elegant World SDN BHD (Elken) of Malaysia. The venture calls for Medifast, Inc. to manufacture its Take Shape™/Dr. Diet weight management products and programs for the Asian market. Medifast Take Shape™ products were selected in a four-year U.S. government National Institute of Health (Dr. Koop Study) weight management study at the University of Vermont, and achieved significant weight loss results. The Company has received large orders for the Take Shape™ product and anticipates continuous orders in the upcoming quarters, supporting their efforts to launch this clinical product in Asia.

2. Summary of Significant Accounting Policies

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

Cash And Cash Equivalents:
For the purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2002, the Company had invested in four $100,000 certificates of deposit, which are not considered cash equivalents due to the terms to maturity.

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.

Advertising:
Advertising costs such as preparation, layout, design and production of advertising are deferred. They are expensed when first shown except for the costs of executory contracts, which are amortized as performance under the contract is received. Advertising costs so deferred were $238,000 at December 31, 2002. Advertising expense for the years ended December 31, 2002 and 2001 amounted to $1,214,000 and $262,000, respectively.

Property, Plant & 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:

Description	Years
Building and building improvements	39
Equipment and fixtures	3-15
Vehicles	3

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.

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

Revenue:
Revenue from domestic sales is recognized when the product is shipped to customers or purchased by wholesale customers. Revenue from foreign sales is recognized at the time the goods are received by the customer.

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

Fair Value Of Financial Instruments:
The carrying amounts reported in the 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.

Concentration Of Credit Risk:
Financial instruments that potentially subject the Company to credit risk consist of cash, certificates of deposit, and trade receivables. Cash and certificates of deposit at December 31, 2002 include amounts deposited with one financial institution that exceed the federal insurance coverage by $1,556,000. 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.

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.

Stock Option Plan:
On October 9, 1993 and as amended in May 1995, the Company adopted a stock option plan ("Plan") authorizing the grant of incentive and 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 and in June 2002, 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 and 300,000 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 below:

December 31,	**2002**	2001
Net income:		
As reported	$2,623,000	$588,000
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(95,000)	(3,000)
Pro forma	$2,528,000	$585,000
Net income per share:		
As reported:		
Basic	$0.36	$0.08
Diluted	$0.30	$0.07
Pro forma:		
Basic	$0.34	$0.08
Diluted	$0.29	$0.07

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 (ii) the fair value of additional stock options in future years.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

For the purpose of the previous 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:

December 31,	**2002**	2001
Dividend yield	0.0%	0.0%
Expected volatility	0.40	0.40
Risk-free interest rate	3.00%-5.00%	4.25%-4.75%
Expected life in years	5	1-5

The weighted average fair value at date of grant for options granted during the years 2002 and 2001 were $0.36 and $0.08, respectively, using the above assumptions.

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

	2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	706,000	$0.36	651,000	$0.55
Options granted	340,000	1.14	155,000	0.44
Options reinstated	100,000	1.50	-	-
Options exercised	(222,664)	0.85	-	-
Options forfeited or expired	(31,667)	0.26	(100,000)	1.50
Outstanding at end of year	891,669	0.69	706,000	0.39
Options exercisable at year end	714,994	0.64	637,667	0.36
Options available for grant at end of year	108,331		0	

The following table summarizes information about stock options outstanding and exercisable at December 31, 2002:

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	335,000	2.3	$0.25	335,000	$0.25
$0.32	46,668	4.4	$0.32	26,666	$0.32
$0.50	100,000	3.0	$0.50	100,000	$0.50
$0.65	75,000	4.5	$0.65	24,999	$0.65
$0.75	85,000	2.0	$0.75	85,000	$0.75
$0.80	50,001	4.5	$0.80	13,332	$0.80
$0.86	10,000	4.5	$0.86	3,332	$0.86
$1.23	20,000	4.7	$1.23	6,666	$1.23
$1.26	50,000	4.7	$1.26	16,666	$1.26
$1.50	20,000	0.3	$1.50	20,000	$1.50
$1.60	25,000	3.0	$1.60	8,333	$1.60
$2.00	75,000	4.7	$2.00	75,000	$2.00
	891,669	**3.1**	**$0.69**	**714,994**	**$0.64**

Segment Information:
Prior to 2002, the Company was considered to have only one operating segment. In late 2002, the Company made its first shipment of goods under an arrangement with Elken International of Malaysia for distribution of those goods in the Asian market. Revenues recognized under this arrangement in 2002 amounted to $233,000.

3. Inventory

Inventory consists of the following at December 31, 2002:

Raw materials	$722,000
Work-in-process	5,000
Finished goods	532,000
	$1,259,000

4. Property, Plant And Equipment

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. Property, plant and equipment at December 31, 2002 consist of the following:

Land	$345,000
Building and building improvements	3,874,000
Equipment and fixtures	1,761,000
Vehicle	25,000
	6,005,000
Less accumulated depreciation and amortization	1,507,000
Property, plant and equipment - net	**4,498,000**

Substantially all of the Company's property, plant and equipment is pledged as collateral for various loans (see Note 8).

5. Trademarks and Intangibles

During 2002, the Company began developing a patent for a new product. As of December 31, 2002, the patent has been given patent pending status from the United States Patent and Trademark Office. Costs, which consist of raw materials, salaries, and consulting fees, amounted to $157,000. Amortization of the development costs will begin once the patent has been approved and the product has been fully developed.

As part of the implementation of Take Shape for Life, Inc., the Company purchased a database of qualified health professionals responsible for providing disease and weight management solutions through the use of Company products. The $474,000 cost of the database is being amortized over a period of seven years. Amortization expense relative to the database amounted to $23,000, for the year ended December 31, 2002.

A summary of Trademarks and Intangibles as of December 31, 2002 is as follows:

Patent development costs	$157,000
Professional network database	474,000
	631,000
Less accumulated amortization	23,000
Trademarks and intangibles	**$608,000**

6. Accounts Payable And Accrued Expenses

Accounts payable and accrued expenses include the following at December 31, 2002:

Trade payables	$348,000
Accrued expenses	325,000
Accrued payroll and related taxes	218,000
Sales commissions payable	168,000
Deferred revenue	130,000
Total	**$1,189,000**

7. Income Taxes

At December 31, 2002, the principal components of the net deferred tax assets are as follows:

Net operating loss carryforwards	$1,709,000
Accounts receivable	21,000
Inventory overhead and writedowns	4,000
Total deferred tax assets	1,734,000
Current benefit	1,079,000
	$655,000

Prior to 2002, the company had provided a valuation allowance against the portion of its net operating loss carryforwards and other temporary differences, for which the likelihood of realization could not be determined.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

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 as follows:

December 31,	**2002**	2001
Income tax (benefit) based on federal statutory rate	$577,000	$192,000
State and local tax (benefit), net of federal benefit	111,000	27,000
Decrease in valuation allowance	(1,613,000)	(241,000)
Income tax benefit	**($925,000)**	$(22,000)

The Company has net operating loss carryforwards of approximately $4,500,000 which are available to offset future taxable income. These carryforwards expire from 2009 to 2019. The Tax Reform Act of 1986 contains provisions which limit the net operating loss carryforwards available for use should significant changes in ownership interests occur. The Company has had an ownership change which may require the applications of these limitations.

8. Long-Term Debt And Line Of Credit

Long-term debt as of December 31, 2002 consists of the following:

$2,850,000 fifteen year term loan secured by the building and land at a variable rate which was 4.19% at December 31, 2002	$2,771,000
$220,000 two year term loan secured by equipment at a floating rate which was 6.25% at December 31, 2002	161,000
$100,000 unsecured note payable at a fixed rate of 3%, discounted to an incremental borrowing rate of 12%	64,000
Note payable over 3 years secured by vehicle at a fixed rate of 12.25%	9,000
	3,005,000
Less current portion	304,000
	$2,701,000

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

2003	304,000
2004	276,000
2005	200,000
2006	200,000
2007	200,000

The Company has established a $550,000 revolving line of credit at the prime interest rate with Mercantile Safe Deposit and Trust Company. The outstanding balance on this line was $91,000 at December 31, 2002.

9. Leases

Operating Leases:

The Company has an operating lease for a retail outlet store, which expires in December 2003. The Company also leases 3,600 square feet of warehouse and storage space on a 3-year lease until 2003. In addition, the Company leases certain office equipment under operating leases expiring in 2005 and 2006.

Future minimum lease payments as of December 31, 2002 are as follows:

	Total	Sublease Agreement	Net
2003	191,000	16,000	175,000
2004	128,000	-	128,000
2005	128,000	-	128,000
2006	11,000	-	11,000
2007	11,000	-	11,000

Rent expense totaled approximately $157,000 and $342,000 for the years ended December 31, 2002 and 2001, respectively. Rent expense for 2002 and 2001 has been reduced by $16,000 and $4,000, respectively, representing amounts received under a sublease agreement.

10. Employment Agreements

The CEO of Medifast, Inc., Bradley T. MacDonald, has a two-year employment agreement for an aggregate annual base salary of $190,000 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, 2004. The agreement also provides certain incentives plus discretionary bonuses in 2002 and 2003. The Board of Directors reinstated 100,000 options at $1.50 which MacDonald exercised in December 2002. Mr. MacDonald also exercised 20,000 of options at $.25 in July 2002 and 80,000 of options at $.25 in January 2003. He has 15,000 options at $.75 remaining available to exercise.

11. 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.

12. 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. The Company also agreed to (1) give Series "B" shareholders an additional 128,524 warrants at $0.35 per share, (2) issue Mr. David Scheffler, consultant, 100,000 options at $0.50 per share, and (3) redeem his 36,050 shares of Series "B". 44,000 shares of Series "C" preferred stock were also issued to Mr. Scheffler for investment advisory services. Subsequent to these transactions Mr. Scheffler was elected to the Board of Directors of Medifast, Inc., in June 2002.

13. Series "C" Preferred Convertible Stock

In the Fall of 2001, the Company was authorized to issue 1,000,000 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.

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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

14. Warrants

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.

During 2001, the Company issued 47,600 warrants to the stockholders of Series "C" Preferred Convertible Stock and 137,000 warrants to Series "B" Preferred Stock. These are 3 year warrants to purchase common shares at exercise prices of $.35 per share. These warrants were valued at $0.

The fair value of these warrants was estimated using the Black-Scholes pricing model with the following assumptions: interest rate 3% - 5%, dividend yield 0%, volatility 0.40 and expected life of three years.

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

		Year Ended December 31,	
Exercise Price	Expiration date	**2002**	2001
$0.35	August, 2004	80,100	89,900
$0.35	March, 2005	102,724	0
0.45	September, 2003	30,000	30,000
0.25	January, 2003	56,000	105,530
0.625	September, 2004	27,500	37,500
2.00	June, 2002	0	24,000
1.50	August, 2003	60,000	60,000
1.50	April, 2003	60,000	60,000
1.75	August, 2001	0	51,375
1.75	February, 2003	0	25,000
		416,324	483,305
Weighted average exercise		**$0.73**	$1.06

As of December 31, 2002, the warrants were all exercisable.

15. Commitments, Contingencies And Other Matters

a. 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.

b. MIE Properties recently made a claim through counsel of over $100,000 from a guarantee provided to Dr. Vitale (Jason Pharmaceuticals) in 1993. The Company and its counsel are investigating the validity of the claim.

c. The Company is a defendant in a lawsuit brought by Food Sciences Corporation, a competitor, alleging that slanderous and untrue statements were made to its customers by the Company. The Company has counterclaimed against Food Sciences Corporation and third parties alleging a conspiracy to damage the company's business and trademarks as well as business defamation and other claims. It is management's opinion that the probability of an unfavorable outcome from this litigation is unlikely.

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 2002, 2001, and 2000.

Name	Year	Salary ($)	Bonus ($)	Value of Common/ Preferred Stock Issued in Lieu of Cash	Option Awards	Other Annual Compensation
Bradley T. MacDonald	2002	145,000	75,000	0	100,000(1)	0
Chairman of the Board	2001	135,371	(0)	$20,000 (2)	0	0
&CEO	2000	125,000	(0)	$1,000 (3)	100,000	0

(1) The Board of Directors reinstated 100,000 options at $1.50 per share granted in 1997 and not exercised. Mr. MacDonald exercised those options in December 2002 per the Board's direction.
(2) Mr. MacDonald was issued 20,000 shares of restricted Series "C" Preferred Convertible Stock as part of compensation related to restructuring and raising new capital.
(3) The Board of Directors granted Mr. MacDonald and his family 1,000,000 shares of stock at par value ($.001) for providing a personal guarantee for the financial package of almost $850,000, which was the capital responsible for returning the Company to profitability. The stock issued was part of the personal guarantee of the MacDonald family as collateral for the Jason Pharmaceuticals Inc. loans. Mercantile Safe Deposit and Trust held common stock as collateral in addition to other personal assets.

STOCK OPTIONS

The Company's 1993 Employee Stock Option Plan (the "Plan"), as amended in July 1995, December 1997 and again in June 2002, authorizes the issuance of options for 1,000,000 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, 2002 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 2002, 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	90,000	200,000
Average Exercise Price	$0.86	$0.56	$0.60
Options Exercised	120,000	-	10,000
Average Exercise Price	$1.29	-	$0.25
Shares sold	-	-	-
Options unexercised as of 12/31/02	95,000	90,000	190,000

(1) 100,000 options issued at $1.50 per share in 1997 were reinstated after shareholders increased authorized options to 1,000,000 shares provided they were exercised by 12/31/02.

STOCK OPTIONS

	FY 02 Grants @ Price & Expiration Month/ Year	Approximate 5 YR Potential Realizable Value at 10% Annual Stock Appreciation	Unexercised Options as of 12/31/02	Value of Unexercised Options as of 12/31/02
Bradley T. MacDonald, Chairman			95,000	474,150
Rev. Donald Reilly, Director			50,000	223,500
Scott Zion, Director			50,000	238,500
Michael C. MacDonald, Director			40,000	187,800
Kristina DeSantis, Director			20,000	101,400
Silver & Silver			35,000	177,450
Steve & Susan Rade			150,000	760,500
David Scheffler, Consultant			100,000	482,000
Sarah Clarke, Employee	3,333@$0.32 1/02	$0.52		
Margaret MacDonald, Employee	20,000@$0.32 1/02	$0.52	20,000	100,000
Joseph DiBartolomeo, Employee	50,000@$0.65 7/02	$1.05	50,000	233,500
Kellie Hudson, Employee	25,000@$0.65 7/02	$1.05	25,000	116,750
Erin Erwood, Employee	5,000@$0.86 7/02	$1.39	5,000	22,300
Casey Seward, Employee	5,000@$0.86 7/02	$1.39	5,000	22,300
Michael McDevitt, Employee	20,000@$0.80 7/02	$1.29	20,000	90,400
Richard Law, Employee	20,000@$0.80 7/02	$1.29	40,000	190,400
Jaime Hershner, Employee	10,000@$0.80 7/02	$1.29	10,000	46,805
Shannon Wynne, Employee	5,000@$0.80 7/02	$1.29	6,668	31,740
Richard Logsdail, Employee	50,000@$1.26 9/02	$2.03	50,000	203,000
Dan Bell, Employee	25,000@$1.60 9/02	$2.58	25,000	93,000
Melissa Clark, Employee	10,000@$1.23 9/02	$1.98	10,000	40,900
Don Boysen, Employee	10,000@$1.23 9/02	$1.98	10,000	40,900
Dick Vitale, Consultant	75,000@$2.00 11/02	$3.22	75,000	249,000
			891,669*	4,126,295

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

The following table provides information as to the value of the unexercised options held by the persons named in the Summary Compensation Table who are optionholders as of December 31, 2002 measured in terms of the closing bid price of the Company's Common Stock on such date:

	Number of Shares Underlying unexercised options as of 12/31/02 Exercisable/ Unexercisable	Value of unexercised in the money options on 12/31/02 Exercisable/ Unexercisable
Bradley T. MacDonald (1)	95,000/0	$474,150/0

*On December 31, 2002 the closing price was $5.32 on the American Stock Exchange.

(1) Mr. MacDonald exercised 100,000 options @1.50 on 12/27/02.

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, 2002 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, 2002 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	1,766,050 (1)	25.00%
Donald F. Reilly	60,000 (2)	0.80%
Michael C. MacDonald	60,000 (2)	0.80%
Scott Zion	260,000 (2)	3.60%
David Scheffler	164,000 (2)(3)	2.25%
Mary Travis	5,000 (2)	0.06%
Michael J. McDevitt	11,400 (2)	0.16%
Executive officers as a group (8 persons)	2,111,000	39.92%

* The address is C/O Medifast Inc. 11445 Cronhill Drive Owings Mills, MD 21117

(1) Mr. MacDonald beneficially owns 1,676,050 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 1,208,402 shares of stock.

(2) Independent directors were issued 25,000 shares of common stock as compensation for their participation as Board Members in 2002.

(3) David Scheffler was an investment banker for three high net worth individuals who wish to remain anonymous but called themselves D.S. Capital Investors prior to his election to the Board. He received 44,000 shares of Series "C" stock and 100,000 options at $0.50 a share for investment advisory services to the Company while redeeming 36,000 shares of Series "B" preferred stock previously earned.

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 $3,850 in Director's fees and/or expenses in 2002. See "Executive Compensation – Stock Options" for stock options granted under the 1993 Plan to the Directors. The Company authorized a stock grant under rule 144 of 10,000 shares to Michael J. McDevitt, Director, Chairman of the Audit Committee; 10,000 shares to David Scheffler, Director; and 5,000 shares to Mary Travis, Director appointed prior to the AMEX listing in November 2002.

RECENT DEVELOPMENTS

Recent Developments

On September 1, 2002, the Company announced the implementation of Take Shape for Life, Inc., a Delaware Corporation and a wholly owned subsidiary of Medifast, Inc. This program is a comprehensive, medically supervised program (www.takeshapeforlife.com) designed to assist in long-term weight loss and disease and lifestyle management featuring Medifast weight-loss and disease management products. Program entrants are encouraged to consult with Take Shape for Life health advisors who are key to the program. These advisors are supported, educated and qualifies by The Health Institute, a dedicated training institute staffed by Medifast professionals. These professionals obtain Medifast qualification and certification based upon a testing of their knowledge of Medifast and the Medifast product line. Further certification and training is also offered through the Health Institute on areas such as nutrition, fitness and behavior modification. Health advisors recruit program entrants and provide them with guidance and samples of Medifast products. The number of certified and trained health advisors presently exceeds 1000, and management plans for a very rapid expansion.

On November 1, 2002, management announced that coach and celebrity sportscaster Dick Vitale joined the Company to assist in promoting a healthy lifestyle using Medifast weight and disease management and clinical sports nutrition products. Mr. Vitale will participate in a comprehensive, three-year advertising and promotional campaign, in which he will encourage Americans to lose weight and get in shape using Medifast medical meal replacement products. Management plans to use national print, radio and television advertising. During the first quarter of 2003, Medifast will deliver over 820 million consumer impressions through a national print and network radio advertising campaign featuring Coach Dick Vitale. Medifast ads can be found in a variety of national publications including Parade Magazine, Today's Health and Wellness, Modern Maturity, and over the airwaves of CBS radio during the NCAA's March Madness. The ads are offering $25.00 coupons as incentives to join the Medifast program.

On January 2, 2003 Jason Enterprises, Inc., a wholly owned subsidiary of Medifast, Inc., and Health Care Products, a division of Hi-Tech Pharmacal, signed a joint venture and distribution agreement to develop and produce retail diabetic meal replacement products for their extensive quality line of Diabetic products under the DiabetiTrim™ brand. Health Care Products is a leading manufacturer and marketer of OTC, HBA, and nutritional products for people with diabetes.

Certain Relationships and Related Transactions

In 2002, the Company leased the latest digital printing equipment from Xerox, Inc. Michael MacDonald, a Director of Medifast, Inc., is currently the President of the North American Solutions Group of Xerox however, the division that sells and services Medifast's Xerox equipment does not report to M. MacDonald. The Xerox equipment, leased on favorable terms, has saved the Company an excess of $300,000 on printing expenses based on Jason Pharmaceuticals historical printing costs since 1990.

Kristina DeSantis, was elected to the Board in 2001 by proxy. After her election and prior to the June 2002 election, David Scheffler married Ms. DeSantis and accordingly during the 2002 stockholders meeting, Mr. Scheffler was nominated, elected and replaced Ms. DeSantis.

Margaret E. MacDonald, the daughter of the CEO, is the Vice President of Operations for Jason Pharmaceuticals, Inc., and is not an executive officer of the parent, Medifast, Inc.

Submission of Matters to a Vote of Security Holders

The Medifast Annual Shareholder Meeting was held on June 6, 2002 at Villanova University in Villanova, PA. The Shareholders (82% voted in favor) elected the following slate of Directors: Mr. Bradley T. MacDonald, Rev. Donald F. Reilly, O.S.A., Mr. Michael C. MacDonald, Mr. Scott Zion and Mr. David Scheffler. The shareholders approved the reappointment of Wooden & Benson, Chartered, as the Company's independent auditors for the fiscal year ending December 31, 2002.

The Directors elected Mr. Bradley T. MacDonald as Chairman of the Board, CEO, Treasurer and Secretary, and Mr. Scott Zion as Assistant Secretary of the Corporation.

The stockholders approved and the Directors amended the Company's 1993 stock option plan and increased the number of authorized stock options from seven hundred thousand (700,000) to 1 million (1,000,000) in order to provide incentives for employees, directors, and consultants performance.

The stockholders approved and the Directors consented to increase the number of authorized shares of common stock by five million (5,000,000) shares to fifteen million (15,000,000) shares.

The Directors authorized the Company to purchase the building at 11445 Cronhill Drive, Owings Mills, Maryland for 3.4 million dollars and directed the CEO to arrange financing on favorable terms to close the transaction in 60 days.

INDUSTRY COMPARISON OF STOCK PRICES

NUTRACEUTICAL GROUP

Company	December 31, 2002 Stock Price	December 31, 2001 Stock Price	$ Change	% Change
Medifast (MED)	**$5.32**	**$0.22**	**$5.10**	**2318.2%**
Natural Alternatives International (NAII)	3.98	2.25	1.73	76.8%
Weider Nutrition (WNI)	1.45	1.68	(.23)	(13.7)%
Pure World, Inc. (PURW)	.51	.85	(.34)	(40.0)%
Twinlab Corporation (TWLB)	.10	1.35	(1.25)	(92.6)%
Natures Sunshine Products, Inc. (NATR)	9.71	11.74	(2.03)	(17.3)%

Company	December 31, 2002 Stock Price	December 31, 1999 Stock Price	$ Change	% Change
Medifast (MED)	**$5.32**	**$0.19**	**$5.13**	**2700%**
Natural Alternatives International (NAII)	3.98	3.25	.73	22.5%
Weider Nutrition (WNI)	1.45	3.69	(2.24)	(60.7)%
Pure World, Inc. (PURW)	.51	3.12	(2.61)	(83.7)%
Twinlab Corporation (TWLB)	.10	7.94	(7.84)	(98.7)%
Natures Sunshine Products, Inc. (NATR)	9.71	8.00	1.71	21.3%

PHARMACEUTICAL GROUP

Company	December 31, 2002 Stock Price	December 31, 2001 Stock Price	$ Change	% Change
Medifast (MED)	**$5.32**	**$0.22**	**$5.10**	**2318.2%**
Abbott Labs (ABT)	40.00	55.75	(15.75)	(28.3)%
Unilever (UL)	38.25	33.27	4.98	15.0%
Novartis (NVS)	36.73	36.50	.23	.63%
Bristol Myers Squibb (BMY)	23.15	51.00	(27.85)	(55.0)%

Index Comparison

$100 Invested in 1999 would return:	1999	**2002**
Nutraceutical Group Index	$100	$80
Medifast (MED)	**$100**	**$2,431**
S&P 500	$100	$71

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

BOARD OF DIRECTORS

Bradley T. MacDonald
Chairman of the Board and CEO - 55
Bradley MacDonald became Chairman of the Board and CEO of Medifast, Inc. in January 28, 1998. Prior to joining the Company, he was appointed Program Director of the U.S. Olympic Coin Program of the Atlanta Olympic Games. From 1991 through 1994, Colonel MacDonald returned to active duty to be Deputy Director and Chief Financial Officer of the Retail, Food, Hospitality, and Recreation Businesses for the United States Marine Corps. Prior thereto, Mr. MacDonald served as Chief Operating Officer of the Bonneau Sunglass Company, President of Pennsylvania Optical Co., Chairman and CEO of MacDonald and Associates, which had major financial interests in retail drug, consumer candy, and pilot sunglass companies. Mr. MacDonald was national president of the Marine Corps Reserve Officers Association and retired from the United States Marine Corps Reserve as a Colonel in 1997, after 27 years of service.

***Reverend Donald F. Reilly** O.S.A.*
Director - 55
Reverend Donald Reilly, O.S.A. holds a Doctorate in Ministry (Counseling) from New York Theological and an M.A. from Washington Theological Union as well as a B.A. from Villanova University. Reverend Don Reilly was ordained an Augustinian priest in 1974 and now serves as the Provincial for the Augustinian Order at Villanova, P.A. 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 oversees 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
Director - 49
Michael MacDonald is a corporate officer and the President of North American Solutions Group for the Xerox Corporation. Mr. 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. MacDonald is the brother of Bradley T. MacDonald, the CEO of the Company.

David A. Scheffler
Director - 33
David Scheffler currently serves as a Principal and Registered Representative of JPR Capital in New York. Mr. Scheffler has over ten years experience in the financial service industry including over seven years in the origination and distribution of private equity financing. A graduate of Temple University with a BA in Finance, Mr. Scheffler has been working in the investment community since the summer of 1991. Mr. Scheffler has been involved with the Company since 1993 when it went public and was instrumental in providing capital for the 1999 restructuring and liquidation of assets that led to profitable operations.

R. Scott Zion
Director - 52
Scott Zion, is a Director and the Corporate Secretary for Medifast, Inc. He received a Bachelor of Arts Degree from Denison University, Granville, Ohio. 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. He also spent 20 years with the Mead Johnson Nutritional Division of Bristol Myers Squibb in various positions of increasing responsibility in sales management.

Michael J. McDevitt
Director - 54
Mr. McDevitt retired from the FBI with over 24 years of service. At the FBI, he developed and managed highly successful technical security programs through a succession of leadership posts, culminating in a Senior Executive Service position. He was recognized as the leading authority in the US Government on physical security and technical countermeasures. He was credited with creating and institutionalizing the FBI's capability in threat and security assessment. In his role as a Senior Manager at Deloitte &Touche, he is involved in all aspects of the firm's security initiatives, which include Physical Security, Disaster Recovery and Business Continuity Planning, Travel Security and Special Investigations. He is a member of the Medifast Audit Committee.

Mary T. Travis
Director - 51
Mary Travis is currently the Senior Vice President of Wholesale Operations for Sunset Mortgage Company, L.P. in Pennsylvania 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 a member of the Medifast Audit Committee.

MANAGEMENT

Paul E. Warren
Vice President of Manufacturing
Paul E. Warren currently serves as Vice President of Manufacturing. Paul was named Director of Purchasing in his first year with Medifast and Vice President and General Manager in July of 1999. Paul has held several positions in administrative areas since 1995. Paul has a Certificate in Business from the E.D.G.E. Program and his commitment to Medifast have made him an invaluable asset to the Company.

Meg E. MacDonald
Vice President of Operations
Meg MacDonald joined Medifast's management team in June of 2001 and currently serves as Vice President of Operations. Prior to joining Medifast, Meg worked as a Paralegal and Case Manager for Carrington, Coleman, Sloman & Blumenthal LLP, a prestigious antitrust law firm in the Southwest, until January of 2000. Meg is a graduate of Villanova University.

Richard J. Law, MS
Vice President of Corporate Development
Rich Law joined Medifast, Inc. in October 2001 as the Vice President of Corporate Development. Rich received a Master of Science degree in Systems Management from the University of Southern California as well as a Bachelor of Science in Advertising from Iowa State University. Previously, Rich worked as a program analyst for PacifiCare where he was recognized as an expert with the ability to identify, analyze and fix production problems labeled "most difficult."

Jaime M. Elwood
Senior Director of Marketing Services
Jaime was recently named Senior Director of Marketing Services. She joined Medifast's management team in June of 2001 after serving the Company as an intern in 2000. Jaime previously worked in Public Relations for the Marcus Institute and as a Senior Advertising Manager and Editor for the Villager Newspaper. Jaime is a graduate of Villa Julie College where she received a Bachelor of Science degree in Business Communications.

Michael S. McDevitt
Controller and Director of Financial Administration
Mike joined the Medifast team in August of 2002 as the Director of Financial Administration. Prior to joining Medifast, Mike worked as a third year Financial Analyst for The Blackstone Group, a prestigious private equity group, in New York City. His extensive knowledge base includes accounting, financial analysis, forecasting and stock valuations. Mike is a graduate of James Madison University, where he received a Bachelor of Arts degree in Finance in May 2000.

Shannon M. Wynne
Director of Creative and Internet Technologies
Shannon became the Director of Creative and Internet Technologies in June of 2001 after joining Medifast, Inc. in June of 2000 as an intern. Shannon has a Bachelor of Science degree in Visual Communication from Villa Julie College and currently handles graphic design and internet development functions.

Joseph P. DiBartolomeo, Ph.D.
Vice President o f Clinical Affairs and Development
Joe, joined Medifast as Vice President of Clinical Affairs and Development in April 2002. As a twenty-year veteran in the weight management industry, Joe brings tremendous clinical experience and insight to the Medifast management team. Joe received a Doctorate in Health Education, specializing in nutrition and weight management, from the University of Maryland in 1980 as well as certification from the American College of Sports Medicine as a Health and Fitness Trainer. Joe also holds a Master of Science in Physiology and a Bachelor of Arts in Biology from Rutgers University.

Kellie T. Hudson
Director of Clinical Affairs and Business Development
Kellie joined Medifast, Inc. as the Director of Clinical Affairs and Business Development in April 2002. She previously worked as a Document Solutions Executive and Global Accounts Services Specialist for Xerox Corporation in Horsham, Pennsylvania. Kellie received a Bachelor of Arts degree from Rosemont College in May of 1997.

Richard M. Logsdail
President and COO
Rick was named the President and Chief Operating Officer of Take Shape for Life in September 2002. Prior to joining the Company, Rick was President and Chief Executive Officer of WAH Technologies, Inc. an Internet Portal for home-based business based in Portland, Oregon. Prior thereto, Rick was a stockbroker and a Private Banker for CIBC World Markets in Canada were he was responsible for all aspects of private client wealth management, insurance, estate planning, and portfolio growth. Prior to that, Rick was a corporate banker with the Royal Bank of Canada. Rick received a Bachelor of Science degree in Business Administration, Finance, and Economics from Morningside College in Iowa.

Daniel P. Bell
Executive Vice President of Sales and Marketing
Dan joined Take Shape for Life, Inc., in September 2002 with over 25 years experience in the Direct Sales/Network Marketing Industry. His resume includes building sales organizations of over 100,000 persons in North America, Europe, and South America as both an independent distributor and as a Direct Sales company co-founder. Dan has been active in various charity organizations including a position as a member of the Board of Directors of the Philadelphia Easter Seals Society and a Member of the Nominating Committee for the Washington Charity Dinner in Washington DC.

Melissa A. Clark
Director of Administration
Melissa became the Director of Administration for Take Shape for Life, Inc., in September 2002. Prior to joining the Company, Melissa worked as a Tier 2 Support Engineer for Ulticom, Inc., in Dallas, Texas. She also worked as a Verification Engineer for Nortel Networks. Melissa is a graduate of the University of North Texas, where she received a BA in Computer Science.

Donald E. Boysen
Director of Operations
Don was named the Director of Operations for Take Shape for Life in September 2002. Prior to joining the Company, Don was the Director of Operations and Site Manager for Ulticon, Inc., in Dallas, Texas, where he was responsible for day-to-day operations of the Dallas engineering facility. Don received a BS in Business Administration from the University of Texas.

BOARD OF DIRECTORS & CORPORATE SPOKESPERSON



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



Rev. Donald Reilly, O.S.A.
Augustinian Provincial and Trustee of Villanova University



Michael MacDonald
President of North American Solutions Group for Xerox Corp.



David Scheffler
Principal and Registered Representative of JPR Capital



Scott Zion
Corporate Secretary for Medifast, Inc. & Principal of Resources Development, Inc.



Michael McDevitt
Senior Security Manager of Deloitte & Touche and FBI - Retired Senior Executive



Mary Travis
Senior Vice President of Sunset Mortgage Company, L.P.



CEO **Bradley MacDonald** pictured with Medifast Spokesperson **Dick Vitale**

MANAGEMENT



Back Row - Paul Warren, Donald Boysen, Daniel Bell, Bradley MacDonald, Richard Logsdail, Dr. Joseph DiBartolomeo, Michael McDevitt, Richard Law
Front Row - Shannon Wynne, Melissa Clark, Jaime Elwood, Meg MacDonald **Not Pictured** - Kellie Hudson