Covidien plc
Form 425
August 29, 2014

Stockholm Investor Meetings
August 29, 2014
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Filed by Medtronic, Inc. (SEC File No.: 001-07707)
pursuant to Rule 425 under the Securities Act of 1933
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under the Securities Exchange Act of 1934
Subject Company: Covidien plc
Form S-4 File No.: 333-197406
Date: August 29, 2014

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Medtronic Positioned to Execute
Creating Long-Term Value in Healthcare
Improving operational execution to deliver consistent results
Uniquely positioned to expand our market-leading franchises through three differentiated strategies:
Combining reliable performance with disciplined capital allocation to create long-term shareholder value
1.
Therapy Innovation: Delivering strong launch cadence of meaningful therapies and procedures
2.
Globalization: Addressing the inequity in healthcare access globally
3.
Economic Value: Becoming a leader in value-based healthcare by incorporating EV into our DNA

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Medtronic Today
CoreValve
Evolut
R
MiniMed®
530G
Viva
CRT-D
Advisa MRI
Cardiac and
Vascular Group
Restorative
Therapies Group
Diabetes
Resolute
Integrity
Endurant®
II
PVAC®
GOLD
Solera®
Milestone
Knee
Restore®
Sensor
PEAK®
PlasmaBlade
FY14
Revenue:
$17.0B
Pumps and Sensors
TAVR
Atrial
Fibrillation
Pacing
Defibrillation
DES
AAA
Core Spine
Pain Stim
Ortho
Advanced
Energy
1. On a constant currency basis. Reflects Medtronic on a stand-alone
MDT Financial Formula
Revenue
Growth
1
Mid-Single

Digits
Operating &
Financial
Leverage
EPS Growth
1
200
400 bps
Faster than
Revenue
Dividend Yield
~200 bps
Total
Shareholder
Return
High-Single to
Double Digits
basis and does not include Covidien.
AAA

Adjusted
EPS
Delivering on Commitments
And Strengthening our Competitive Position
Highlights
FY14
Actual
FY14

Guidance
Free Cash
Flow
Revenue
Growth
+3 -
4%
$4 -
$4.5B
+3.6%
$4.6B
$3.80 -
$3.85
$3.82
Returned 50%+ to shareholders
$2.6B share repurchases
50bps of operating leverage
FY14 Emerging Markets growth of 14%
Meaningful product launches including
the MiniMed®
530G, Reveal LINQ
and CoreValve®
Established Cardiocom®
and Cath Lab
Managed Services (CLMS) as future
growth platforms
Effective tax management
Unhedged currency and U.S.
device tax
1.
On an operational basis.
2.
Non-GAAP diluted EPS.
3.
Free cash flow defined as operating cash flow minus capital expenditures.
Note: All revenue figures assume constant currency. Non-GAAP reconciliation available in Appendix & on Medtronic s web
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Medtronic Q1 FY15 Financial Results
Reported on August 19, 2014

Overall, Q1 represented balanced growth, with strong performances in some areas offset by challenges in others

US markets driving growth: grew +6%, the highest growth in the US in 5 years

New therapies contributed 200bps to overall growth driven by Reveal LINQ, CoreValve, and MiniMed 530G

Our robust pipeline will contribute significantly to our future growth

Breadth and scale having an increasing advantage: Focused on New Therapies, Economic Value, and Globalization

Revenue	
$4.3 billion	
% Growth, as reported	
+5%	
% Growth, constant FX	
+4%	
GAAP Net Earnings	
$871 million	
% Growth	
-9%	
GAAP Diluted EPS	
$0.87	
% Growth	
-6%	
Non-GAAP Net Earnings	
$934 million	
% Growth	
+4%	
Non-GAAP Diluted EPS	
$0.93	
% Growth	
+6%	
Cash EPS	
$0.99	
% Growth	
+5%	

1 On a constant currency basis

Note: Non-GAAP reconciliation available in Appendix & on Medtronic s website at www.medtronic.com

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Therapy

Innovation
Globalization
Economic
Value
GROWTH VECTOR #1:
GROWTH VECTOR #2:
GROWTH VECTOR #3:
Medtronic Growth Strategies
Strategies to Address Universal Healthcare Needs
Strong upcoming launch cadence of innovative therapies
Unlocking massive opportunity for existing therapies in emerging markets
Leading industry shift to value-based healthcare with new services & solutions
Sources of Growth
New Therapies
Emerging Markets
Integrated Health Solutions
Medtronic Strategies
Operational Execution
Universal HC Needs
Improve clinical outcomes
Expand access
Optimize cost and efficiency

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Growth Vector #1: New Therapies
Reveal LINQ
WW: Launching
IN.PACT®
Admiral®
SFA
US: By end of FY15
Micra
CE Mark: By end of FY15
FY15
Nuvent
Balloon
WW: Launching
Prestige LP
US: Launching
CoreValve®
High Risk
US: Launching
Resolute Onyx
CE: H2 FY15
FY16
O-arm®
2.0
WW: H2 FY15
Attain®
Performa
Quad
US: Launching
Select
Launches
Medtronic R&D Pipeline
1
Evolut
R
CE Mark: FY15
Next-Gen Interbodies
WW: H2 FY15
MiniMed®
640G
WE: FY15
1.
Reflects Medtronic on a stand-alone basis and does not include Covidien.
200 projects worth $30B+ in
incremental revenue over
next 5 years

1. Moving Medtronic therapy penetration from EM level (11%) to Developed Market levels (24%) in population that can afford the therapy. Reflects Medtronic on a stand-alone basis and does not include Covidien.
EM Premium:
Attractive Opportunity

Technology already exists

Out-of-pocket payment or
reimbursement established

Comparable margins to
developed markets

~$5B annual opportunity
Premium
Premium
Value
Value
Underserved
Underserved

Increased investment

BU and region alignment and
responsibility
Enhanced Focus &
Resources

Large scale private partnerships

Channel optimization

Public partnerships
Smarter Deployment /
Targeting

Aligning around customers

Granular focus within
countries
Go Beyond Market
Development
1
2
3
$475
+16
%
CAG
R
$638
EM SG&A Spend
Millions
~2,600
+33
%
CAG

R
~4,60
0
EM Headcount
Making Changes to Realize Opportunity
Growth Vector #2: Emerging Markets
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Growth Vector #3:
Integrated Health Solutions
Examples
Quantifying Value &
Expanding Offerings
Quantifying Value &
Expanding Offerings
Understand

Economic Value of Innovation
Surgical Synergy SM
Broaden Innovation
Time Horizon to Ensure Value is Realized
Collaborate and Generate New Business Models
Core Therapies
Wrap-Around Services
Integrated Health Solutions
Cath Lab
Cath Lab
Managed Services
Managed Services

AdaptivCRT®

SmartShock®
T2 Diabetes Partnership
Rethinking Blood Conservation (RBC®)
Bundled Payment Pilots
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Growth Vectors Expected to
Deliver Mid-Single Digit Growth
Sources of Growth
GROWTH VECTOR #1
New
Therapies
GROWTH VECTOR #2
Emerging

Markets
GROWTH VECTOR #3
Integrated
Health Solutions
FY14 MDT
Growth
Contribution
180 bps
145 bps
30 bps
FY15E MDT
Growth / Contribution
+150 to 350 bps
+150 to 200 bps
+40 to 60 bps
Low-
to
Mid-Single
Mid-Teens
Double
to Triple
FY14 to FY15
Change
Mid-Term
Expectations
-30 to
+170 bps
+5 to 55 bps
+10 to 30 bps
+150 to 350 bps
+150 to 200 bps
+50 to 100 bps
TOTAL
MEDTRONIC
3.6%
3-5%
FY15 Revenue Outlook
-15 to
+255 bps
Mid-Single
Digit Growth
Note: All revenue estimates assume constant currency. Reflects Medtronic on a stand-alone basis and does not include Covidien. Non-GAAP reconciliation available in Appendix & on Medtronic s website at www.medtronic.com
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Defensive:
Mitigate
pricing
pressure
&
maintain 75-76%
1
gross margins

Offensive:
Enable
product
tiering
&
support value segment expansion
Accomplished
Maintained
Gross Margins
Executing on Operating Expense
Reduction Initiatives

FY12

FY14:
~30
bps
reduction

FY15E
:
50 to 70 bps reduction
Improve efficiency & drive SG&A
leverage while investing in EM
1.
Forecast given on an operational basis. Reflects Medtronic on a stand-alone basis and does not include
Covidien.
DRM
Mfg./Supply
Chain
New Product
Architectures
FY13-FY17:
~$1.2B
FY08-FY12:
$1B

FY14:
8.7%

of
revenue

FY15E:
8.5%

Shift to enhance quality systems, productivity improvements,
economic value prioritization, offsets to medical device tax
Roughly maintain level of R&D
spending going forward
Process
PRODUCT COST REDUCTION
SG&A OPERATING LEVERAGE
R&D
1

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S&P 500 Dividend Aristocrat
Index member; 35 years of
consecutive dividend increases

Dividend more than doubled
over the past 5 years

Over $1 billion in dividend
payments in FY14

Payout ratio of ~30%
1

Repurchased 15% of our shares
over the past 5 years

Over $1.2 billion in share
repurchases in FY14

Going forward, expect share
repurchase to add ~200 bps to
EPS growth annually
DIVIDENDS
SHARE REPURCHASE
Rewarding Shareholders with Distributions
Cash Priorities to Shareholders Overview
~940M
-7%
-9%
1
1.
Non-GAAP calculation based on annualized Medtronic quarterly dividend payment of $0.305 per share as announced on June
Reflects Medtronic on a stand-alone basis and does not include Covidien.
Note: Non-GAAP reconciliation available in Appendix & on Medtronic s website at www.medtronic.com
$0.00
$0.40
$0.80
$1.20
FY00
FY01
FY02
FY03
FY04
FY05
FY06
FY07
FY08
FY09
FY10

FY11
FY12
FY13
FY14
FY15E
900
1,000
1,100
1,200
FY11
FY12
FY13
FY14
FY15E
FY16E
FY17E
FY18E

Generating Significant Free Cash Flow
$25B+

Expected adjusted FCF generation over next 5 years equal to
40%
of
current
market

cap
1

Consistently generate > 20% FCF / revenue

Returning 50%+ of FCF to shareholders

Remain focused on improving U.S. cash
1. Based on Medtronic market capitalization as of July 29. 2014.
Note: Non-GAAP reconciliation available in Appendix & on Medtronic s website at www.medtronic.com
Adjusted free cash flow is operating cash flow minus capital expenditures. Excludes certain litigation payments. Reflects Medtronic on a stand-alone basis and does not include Covidien.
FY10-FY14
FY15-FY19E
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21B
$

13
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2014
Commitment to Return 50% of
Free Cash Flow
1
40%
$ Billions
Corporate Use
Return to
Shareholders
~$25B+
$12.5B+
$62B
$12.5B+
Buybacks
Dividends
$12.5B+
O.U.S.
Cash
U.S.
Cash
2. Based on Medtronic market capitalization as of July 29, 2014.
0
20
40
60
Current Market Cap
Expected Free Cash Flow,
Next 5 Years
Expected Capital
Deployment, Next 5 Years
Expected Return to
Shareholders, Next 5 Years
2
2
1.
Adjusted free cash flow is operating cash flow minus capital expenditures.
Excludes certain litigation payments. Reflects Medtronic on a stand-alone
basis and does not include Covidien.

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Covidien Overview
Highly Strategic and Compelling Acquisition

Accelerates Medtronic s three core strategies of Therapy Innovation, Globalization, and Economic Value

Covidien s impressive portfolio of industry-leading products enhances Medtronic s portfolio, offers greater breadth across clinical areas, and creates exciting entry points into new therapies

Combination of Covidien s extensive emerging market R&D and manufacturing with Medtronic s well-established clinical expertise can be applied across a much broader product offering

Covidien s hospital efficiency technology enhances Medtronic s ability to deliver Economic Value to create a robust and unmatched Integrated Health franchise

Extremely attractive financially: Double-digit hurdle rate with achievable cost synergies

Combined
company
expected
to
generate
significant
free
cash
flow
with
greater
deployment
flexibility
Creates the Premier Global Medical Technology and Services Company with Comprehensive Product Portfolio and Broad Global Reach

Combination Results in Strategic Diversification
COVIDIEN REVENUE
PRO FORMA REVENUE
$17.0B
$10.4B
$27.4B
CRDM

Advanced
Surgical
Ortho/Spine
Peripheral &
Endovascular
Neuro
Coronary
Diabetes
Structural Heart
General
Surgical
Patient Care
Nursing Care
Patient Monitoring
Neurovascular
MEDTRONIC FY14 REVENUE
Airway &
Vent
1. Based on last 12 months, ended March 28, 2014.
29.4%
10.3%
7.1%
5.3%
17.9%
11.2%
9.2%
9.7%
CRDM
Coronary
Structural Heart
Endo
Ortho/Spine
Neuro
Surgical Tech
Diabetes
31.9%
15.2%
11.8%
10.2%
9.8%
9.5%
7.3%
4.3%
Advanced Surgical
General Surgical
Peripheral Vascular
Patient Care
Nursing Care
Patient Monitoring
Airway & Vent

Neurovascular
18.2%
17.8%
11.1%
7.7%
6.9%
6.4%
6.1%
5.8%
4.4%
3.9%
3.7%
3.6%
2.8%
1.6%
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Covidien Transaction Summary

Acquisition of Covidien for $42.9 billion in cash ($16.1 billion) and Medtronic stock ($26.8 billion based on Medtronic s closing stock price on June 13, 2014, the last trading day prior to the announcement of the acquisition)

Covidien shareholders to own ~30% of the combined company at closing

Cash consideration to be funded by ~$3 billion in new debt and ~$13 billion in cash and investments

Medtronic to assume ~$5 billion of Covidien debt

Represents per share consideration for Covidien shareholders of:

$35.19 in cash and 0.956 shares of new Medtronic shares

Offer represents a 29% premium to last closing share price on June 13, 2014

Transaction Terms

Transaction Structure

Formation of newly domiciled Irish entity; current headquarter operations remain intact in Minnesota

Transaction taxable, for U.S. federal income tax purposes, to Medtronic and Covidien shareholders

Timing

Closing expected in fourth calendar quarter of 2014 or early 2015

Subject to regulatory approvals

Subject to Medtronic and Covidien shareholder approvals

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Revenue Growth

Much stronger platform for diversified growth

Significant revenue synergy potential from
cross-selling
Cost Synergies

At least $850 million pre-tax; quickly achievable

Back office optimization, manufacturing &
supply chain infrastructure, and certain G&A
savings
EPS Impact

Cash EPS accretive in FY16

Significant cash EPS accretion thereafter

GAAP EPS accretion by FY18
Balance Sheet
Implications

Significantly expands access to capital

Committed to Tier 1 commercial paper rating
Leverage

2.3x pro forma debt to EBITDA at closing
Capital Allocation
Policy

Solidifies commitment to return 50% of free
cash flow with more flexibility going forward
COMPELLING FINANCIAL IMPACT
Driving significant shareholder returns
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Medtronic Positioned to Execute
Creating Long-Term Value in Healthcare

Improving operational execution to
deliver consistent results

Uniquely positioned to expand our
market-leading franchises through
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Therapy Innovation: Delivering strong
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Globalization: Addressing the inequity
in healthcare access globally
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Economic Value: Becoming a leader
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incorporating EV into our DNA

Combining reliable performance with
disciplined capital allocation to create
long-term shareholder value

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Key Websites

Global
MedTech
Leader:
http://www.globalmedtechleader.com

Medtronic
Investor
Relations:
http://investorrelations.medtronic.com
Medtronic
Covidien Key Facts
Additional Resources

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Disclaimers

NO OFFER OR SOLICITATION

IMPORTANT ADDITIONAL INFORMATION

PARTICIPANTS IN THE SOLICITATION

Medtronic Holdings, Limited, which will be renamed Medtronic plc (New Medtronic) has filed with the Securities and Exch SEC) a registration statement on Form S-4 that includes the preliminary Joint Proxy Statement of Medtronic, Inc. (Medtro (Covidien) that also constitutes a preliminary Prospectus of New Medtronic. The registration statement is not complete and Medtronic and Covidien plan to make available to their respective shareholders the final Joint Proxy Statement/Prospectus (inc connection with the transactions. INVESTORS AND SHAREHOLDERS ARE URGED TO READ THE PRELIMINARY JO (INCLUDING THE SCHEME) AND OTHER RELEVANT DOCUMENTS FILED OR TO BE FILED WITH THE SEC CA BECAUSE THEY CONTAIN OR WILL CONTAIN IMPORTANT INFORMATION ABOUT MEDTRONIC, COVIDIEN, N RELATED MATTERS. Investors and security holders are able to obtain free copies of the preliminary Joint Proxy Statement/ Scheme) and other documents filed with the SEC by New Medtronic, Medtronic and Covidien through the website maintained www.sec.gov. In addition, investors and shareholders are able to obtain free copies of the preliminary Joint Proxy Statement/Pr Scheme) and other documents filed by Medtronic and New Medtronic with the SEC by contacting Medtronic Investor Relation investor.relations@medtronic.com or by calling 763-505-2696, and will be able to obtain free copies of the preliminary Joint P Statement/Prospectus (including the Scheme) and other documents filed by Covidien by contacting Covidien Investor Relation investor.relations@covidien.com or by calling 508-452-4650.

This communication is not intended to and does not constitute an offer to sell or the solicitation of an offer to subscribe for or b purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the acquisition otherwise, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. N be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Medtronic, New Medtronic and Covidien and certain of their respective directors and executive officers and employees may be in the solicitation of proxies from the respective shareholders of Medtronic and Covidien in respect of the transactions contemp Statement/Prospectus. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the s respective shareholders of Medtronic and Covidien in connection with the proposed transactions, including a description of the interests, by security holdings or otherwise, will be set forth in the final Joint Proxy Statement/Prospectus when it is filed with regarding Medtronic s directors and executive officers is contained in Medtronic s Annual Report on Form 10-K for the fisca and its Proxy Statement on Schedule 14A, dated July 11, 2014, which are filed with the SEC. Information regarding Covidien officers is contained in Covidien s Annual Report on Form 10-K for the fiscal year ended September 27, 2013 and its Proxy S dated January 24, 2014, which are filed with the SEC.

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Disclaimers (cont d)

Cautionary Statement Regarding Forward-Looking Statements

Statements contained in this communication that refer to New Medtronic s, Medtronic's and/or Covidien s estimated or antici synergies, or other non-historical facts are forward-looking statements that reflect Medtronic's and/or Covidien s current persp information as of the date of this communication. Forward-looking statements generally will be accompanied by words such as should, estimate, expect, forecast, outlook, guidance, intend, may, might, will, possible, pote phrases or expressions. It is important to note that these goals and expectations are not predictions of actual performance. Act current expectations depending upon a number of factors affecting New Medtronic's business, Medtronic's business, Covidien proposed transactions. These factors include, among others, the inherent uncertainty associated with financial projections; restr successful close of, the Covidien acquisition; subsequent integration of the Covidien acquisition and the ability to recognize the the Covidien acquisition; the risk that the required regulatory approvals for the proposed transactions are not obtained, are dela are not anticipated; the anticipated size of the markets and continued demand for Medtronic's and Covidien's products; the imp pricing; access to available financing (including financing for the acquisition or refinancing of Medtronic or Covidien debt) on the risks of fluctuations in foreign currency exchange rates; the risks and uncertainties normally incident to the medical device medical device industry; product liability claims; the difficulty of predicting the timing or outcome of pending or future litigati variability of trade buying patterns; the timing and success of product launches; the difficulty of predicting the timing or outcor regulatory agency approvals or actions, if any; potential for adverse pricing movement; costs and efforts to defend or enforce in delays in manufacturing; reduction or interruption in supply; product quality problems; the availability and pricing of third-par associated with self-insurance and commercial insurance; successful compliance with governmental regulations applicable to N Covidien's facilities, products and/or businesses; changes in the laws and regulations, affecting among other things, pricing and products; health care policy changes; risks associated with international operations; changes in tax laws or interpretations that c Medtronic s and/or Covidien s consolidated tax liabilities, including, if the transaction is consummated, changes in tax laws t treated as a domestic corporation for United States federal tax purposes; the loss of key senior management or scientific staff; a detailed in Medtronic's periodic public filings with the SEC, including but not limited to Medtronic's Annual Report on Form 1 2014, in Covidien s periodic public filings with the SEC, including but not limited to Covidien s Annual Report on Form 10- 2013, and from time to time in Medtronic's and Covidien s other investor communications. Except as expressly required by la Medtronic disclaims any intent or obligation to update or revise these forward-looking statements.

Statement Required by the Irish Takeover Rules

The directors of Medtronic accept responsibility for the information contained in this document. To the best of the knowledge (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordanc anything likely to affect the import of such information.

NO PROFIT FORECAST / ASSET VALUATIONS

No statement in this announcement is intended to constitute a profit forecast for any period, nor should any statements be interp earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for Medtronic or C appropriate. No statement in this announcement constitutes an asset valuation.

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Non-GAAP Reconciliation Tables

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2%" style="border-bottom: white solid;">
$
-

Options vested during period

$
-

$
77,000

Options cancelled during period

$
(77,000
)
$
-

Common stock issued for services

$
35,000

$
21,000

See accompanying notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

General

1. Basis of Presentation

The condensed unaudited interim consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements and notes are presented as permitted on Form 10-Q and do not contain information included in the Company's annual statements and notes. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the December 31, 2007 audited consolidated financial statements and the accompanying notes thereto. While management believes the procedures followed in preparing these condensed consolidated financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by the Company later in the year.

These condensed unaudited consolidated financial statements reflect all adjustments, including normal recurring adjustments, which, in the opinion of management, are necessary to present fairly the operations and cash flows for the period presented.

2. Presentation of Financial Statements

The Company's condensed consolidated financial statements include the accounts of Medifast, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

3. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which clarifies the definition of fair value whenever another standard requires or permits assets or liabilities to be measured at fair value. Specifically, the standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability, and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 does not expand the use of fair value to any new circumstances, and must be applied on a prospective basis except in certain cases. The standard also requires expanded financial statement disclosures about fair value measurements, including disclosure of the methods used and the effect on earnings.

In February 2008, FASB Staff Position ("FSP") FAS No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. 157-2") was issued. FSP No. 157-2 defers the effective date of SFAS No. 157 to fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Examples of items within the scope of FSP No. 157-2 are nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods), and long-lived assets, such as property, plant and equipment and intangible assets measured at fair value for an impairment assessment under SFAS No. 144.

The partial adoption of SFAS No. 157 on January 1, 2008 with respect to financial assets and financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis did not have a material impact on the Company's consolidated financial statements. See Note 12 for the fair value measurement disclosures for these

assets and liabilities. The Company is in the process of analyzing the potential impact of SFAS No. 157 relating to its planned January 1, 2009 adoption of the remainder of the standard.

On January 1, 2008 (the first day of fiscal 2008), the Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, which are not otherwise currently required to be measured at fair value. Under SFAS No. 159, the decision to measure items at fair value is made at specified election dates on an instrument-by-instrument basis and is irrevocable. Entities electing the fair value option are required to recognize changes in fair value in earnings and to expense upfront costs and fees associated with the item for which the fair value option is elected. The new standard did not impact the Company's Condensed Consolidated Financial Statements as the Company did not elect the fair value option for any instruments existing as of the adoption date. However, the Company will evaluate the fair value measurement election with respect to financial instruments the Company enters into in the future.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) changes how an entity accounts for the acquisition of a business. While it retains the requirement to account for all business combinations using the acquisition method, the new rule will apply to a wider range of transactions or events and requires, in general, acquisition-date fair value measurement of identifiable assets acquired, liabilities assumed and non-controlling ownership interests held in the acquire, among other items. The Company is beginning to review the provisions of SFAS No. 141(R), which applies prospectively to business combinations with an acquisition date on or after the beginning of its 2009 fiscal year.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements: an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 replaces the term minority interests with the newly-defined term of non-controlling interests and establishes this line item as an element of stockholders' equity, separate from the parent's equity. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. The Company is continuing to review the provisions of SFAS No. 160, which is effective the first quarter of fiscal 2009, and currently does not expect this new accounting standard to have a significant impact on the Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities: an amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. The Company is reviewing the provisions of SFAS No. 161, which is effective the first quarter of fiscal 2009, and currently does not anticipate that this new accounting standard will have a significant impact on the Consolidated Financial Statements.

4. Revenue Recognition

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

5. Inventories

Inventories consist principally of finished packaged foods, packaging and raw materials held in either the Company’s manufacturing facility or distribution warehouse. Inventories are valued at cost determined using the first-in, first-out (FIFO) method.

6. Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board (“FASB”) issued Statement No. 142 “Goodwill and Other Intangible Assets”. This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, “Intangible Assets”. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

In addition, the Company has acquired other intangible assets, which include: customer lists, non-compete agreements, trademarks, patents, and copyrights. The non-compete agreements are fully amortized as of December 31, 2007. The customer lists are being amortized over a period ranging between 5 and 7 years based on management’s best estimate of the expected benefits to be consumed or otherwise used up. The costs of patents and copyrights are amortized over 5 and 7 years based on their estimated useful life, while trademarks representing brands with an infinite life, and are carried at cost and tested annually for impairment as outlined below. Goodwill and other intangible assets are tested annually for impairment in the fourth quarter, and are tested for impairment more

frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The Company assesses the recoverability of its goodwill and other intangible assets by comparing the projected undiscounted net cash flows associated with the related asset, over their remaining lives, in comparison to their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

	As of March 31, 2008		As of December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	$ 8,332,000	$ 3,467,000	$ 8,332,000	$ 3,065,000
Trademarks, patents, and copyrights				
finite life	1,628,000	505,000	1,626,000	446,000
infinite life	909,000	-	909,000	-
Total	$ 10,869,000	$ 3,972,000	$ 10,867,000	$ 3,511,000

Amortization expense for the three months ended March 31, 2008 and 2007 was as follows:

	2008	(Restated) 2007
Customer lists	$ 402,000	$ 239,000
Trademarks and patents	59,000	58,000
Total Trademarks and Intangibles	$ 461,000	$ 297,000

Amortization expense is included in selling, general and administrative expenses.

7. Fixed Assets

Fixed assets are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, which are generally three to seven years. Leasehold improvements and equipment under capital leases are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the related lease terms. Expenditures for repairs and maintenance are charged to expense as incurred, while major renewals and improvements are capitalized.

8. Note Receivable

Medifast realized a $1,503,000 note receivable as a result of the sale of Consumer Choice Systems on January 17, 2006 to a former board member. The note has a 10-year term with imputed interest of 4% collateralized by 50,000 shares of Medifast stock and all the assets of Consumer Choice Systems. The amount of principal to be collected over each of the next 5 years is $183,000 per year with the remaining amount collectible thereafter of $495,000.

9. Income Per Common Share

Basic income per share is calculated by dividing net income by the weighted average number of outstanding common shares during the year. Basic income per share excludes any dilutive effects of options, warrants and other stock-based compensation.

10. Estimates

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

11. Deferred Compensation Plans

We maintain a non-qualified deferred compensation plan for Senior Executive management. Currently, Bradley MacDonald is the only participant in the plan. Under the deferred compensation plan that became effective in 2003, executive officers of the Company may defer a portion of their salary and bonus (performance-based compensation) annually. A participant may elect to receive distributions of the accrued deferred compensation in a lump sum or in installments upon retirement

Each participating officer may request that the deferred amounts be allocated among several available investment options established and offered by the Company. These investment options provide market rates of return and are not subsidized by the Company. The benefit payable under the plan at any time to a participant following termination of employment is equal to the applicable deferred amounts, plus or minus any earnings or losses attributable to the investment of such deferred amounts. The Company has established a trust for the benefit of participants in the deferred compensation plan. Pursuant to the terms of the trust, as soon as possible after any deferred amounts have been withheld from a plan participant, the Company will contribute such deferred amounts to the trust to be held for the benefit of the participant in accordance with the terms of the plan and the trust.

Retirement payouts under the plan upon an executive officer's retirement from the Company are payable either in a lump-sum payment or in annual installments over a period of up to ten years. Upon death, disability or termination of employment, all amounts shall be paid in a lump-sum payment as soon as administratively feasible.

12. Fair Value Measurements

On January 1, 2008, the Company adopted SFAS No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, provides a consistent framework for measuring fair value under Generally Accepted Accounting Principles and expands fair value financial statement disclosure requirements. SFAS 157's valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. SFAS 157 classifies these inputs into the following hierarchy:

Level 1 Inputs– Quoted prices for identical instruments in active markets.

Level 2 Inputs– Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs– Instruments with primarily unobservable value drivers.

The following table represents the fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2008.

Fair Value Measurements on a Recurring Basis as of March 31, 2008

Assets	Level I	Level II	Level III	Total

Investment securities	$ 1,405,000	-	-	$ 1,405,000
Cash equivalents	1,407,000	-	-	1,407,000
Total Assets	$ 2,812,000	$ -	$ -	$ 2,812,000
Liabilities	-	-	-	-
Total Liabilities	$ -	$ -	$ -	$ -

13. Share Based Payments

Stock-Based Compensation

Effective December 31, 2005, the Company adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standard ("SFAS") No. 123(R), "Share-Based Payments," which establishes the accounting for employee stock-based awards. Under the provisions of SFAS No.123(R), stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). The Company adopted SFAS No. 123(R) using the modified prospective method and, as a result, periods prior to December 31, 2005 have not been restated. The Company recognized stock-based compensation for awards issued under the Company's stock option plans in other income/expenses included in the Condensed Consolidated Statement of Operations. Additionally, no modifications were made to outstanding stock options prior to the adoption of SFAS No. 123(R), and no cumulative adjustments were recorded in the Company's financial statements.

Unearned compensation represents shares issued to executives that will be vested over a 5-6 year period. These shares will be amortized over the vesting period in accordance with FASB 123(R). The expense related to the vesting of unearned compensation was $148,000 and $164,000 at March 31, 2008 and March 31, 2007, respectively. Expense related to vesting of options under FASB 123R was $0 and $20,000 at March 31, 2008 and March 31, 2007, respectively.

The following summarizes the stock option activity for the Three Months ended March 31, 2008:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)
Outstanding, December 31, 2007	291,300	4.19	
Options granted			
Options reinstated			
Options exercised	(25,000)	0.50	
Options forfeited or expired	(100,000)	6.25	
Outstanding March 31, 2008	166,300	3.50	1.90
Options exercisable, March 31, 2008	166,300	3.50	1.90
Options available for grant at March 31, 2008	1,056,200		

14. Restatements

The March 31, 2007 financial statements have been restated to increase amortization expense on customer lists by $84,000. Pre-tax income decreased by $84,000 for the quarter-ended March 31, 2007 from $1,987,000 to $1,903,000. Net income for the quarter-ended March 31, 2007 decreased by $49,000 from $1,422,000 to $1,373,000 and retained earnings decreased from $7,403,000 to $7,354,000.

15. Reclassifications

Certain amounts for the quarter ended March 31, 2007 have been reclassified to conform to the presentation of the March 31, 2008 amounts. The reclassifications have no effect on net income for the quarters ended March 31, 2008

and 2007.

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16. Business Segments

Operating segments are components of an enterprise about which separate financial information is available that is regularly reviewed by the chief operating decision maker about how to allocate resources and in assessing performance. The Company has two reportable operating segments: Medifast and All Other. The Medifast reporting segment consists of the following distribution channels: Medifast Direct, Take Shape for Life, and Doctors. The All Other reporting segments consist of Hi-Energy and Medifast Weight Control Centers and the Company's parent company operations.

The accounting policies of the segments are the same as those of the Company. The presentation and allocation of assets, liabilities and results of operations may not reflect the actual economic costs of the segments as stand-alone businesses. If a different basis of allocation were utilized, the relative contributions of the segments might differ, but management believes that the relative trends in segments would likely not be impacted.

The following table's present segment information for the three months ended March 31, 2008 and 2007:

	Three Month Ended March 31, 2008			
	Medifast	**All Other**	**Eliminations**	**Consolidated**
Revenues, net	23,480,000	1,689,000		25,169,000
Cost of Sales	5,727,000	373,000		6,100,000
Other Selling, General and Adminstrative Expenses	14,415,000	1,607,000		16,022,000
Depreciation and Amortization	842,000	237,000		1,079,000
Interest (net)	(10,000)	(55,000)		(65,000)
Provision for income taxes	668,000			668,000
Net income (loss)	1,838,000	($473,000)		1,365,000
Segment Assets	27,083,000	18,973,000		46,056,000

	Three Month Ended March 31, 2007 (Restated)			
	Medifast	**All Other**	**Eliminations**	**Consolidated**
Revenues, net	19,037,000	1,052,000		20,089,000
Cost of Sales	4,827,000	231,000		5,058,000
Other Selling, General and Adminstrative Expenses	11,082,000	1,198,000		12,280,000
Depreciation and Amortization	657,000	129,000		786,000
Interest (net)	(8,000)	70,000		62,000
Provision for income taxes	530,000			530,000
Net income (loss)	1,949,000	($576,000)		1,373,000
Segment Assets	23,831,000	15,581,000		39,412,000

Management Discussion and Analysis of
Financial Condition and Results of Operations

Except for the historical information contained herein, this Report on Form 10-Q contains certain forward-looking statements that involve substantial risks and uncertainties. When used in this Report, the words "anticipate," "believe," "estimate," "expect" and similar expressions, as they relate to Medifast, Inc. or its management, are intended to identify such forward-looking statements. The Company's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Accordingly, there is no assurance that the results in the forward-looking statements will be achieved.

Critical Accounting Policies and Estimates

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

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

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

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

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

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

from our estimates.

General

Three Months Ended March 31, 2008 and March 31, 2007

Revenue: Revenue increased to $25.2 million for the first three months of 2008 compared to $20.1 million for the first three months of 2007, an increase of $5.1 million or 25%. The direct marketing sales channel accounted for 51% of total revenue, Take Shape for Life 39%, doctors 3%, and brick and mortar clinics 7%. As compared to the first three months of 2007, the direct marketing sales channel, which is fueled primarily by consumer advertising, increased revenues by approximately 6% year-over year. Take Shape for Life sales, which are fueled by person-to-person recruiting and support increased by 63% compared to the first quarter of 2007. The Company's doctor's sales decreased by 25% and The Medifast Weight Control Centers increased sales by 75% as compared to the first quarter of 2007.

The Take Shape for Life division grew 63% year-over-year. This growth can largely be attributed to the tools and training that led to an increase in the ability of the division to both promote growth in recruiting of health coaches, as well as better supporting this growth as it occurs. This continued investment proved to be a large part of the current growth trends in Take Shape for Life sales, as well as the number of active health coaches. The number of active health coaches grew to 2,200 at the end of the first quarter of 2008 as compared to 1,350 for the same time period in 2007, an increase of 63%. The Company believes that the growth in health coach activity is a positive trend that should continue, and will lead to significant revenue growth in the near future.

The Medifast Weight Control Centers, which represent approximately 7% of the Company's overall revenues, are currently operating in 14 locations in Dallas, Houston, and Orlando. In the first three months of 2008, the Company experienced revenue growth of 62% versus the same time period last year. The average monthly revenue per clinic also witnessed significant growth of 35%, averaging $39,000 per clinic in the first quarter of 2008 as compared to $29,000 in the first quarter of 2007. In the expanding Dallas, TX market, the average monthly revenue per clinic is approximately $50,000. In the estimated $40 billion weight loss and health living industry, the brick and mortar clinic model has always made up a significant portion of overall sales. The recent growth in the Medifast Weight Control Centers has proven that the model is in high demand from a select portion of the weight loss consumers. Throughout 2007, the Company invested in the infrastructure of its clinic model. The major aspects of the investment in this division included an expanded executive team, the creation of a point of sale system, a robust customer data tracking system, and finalizing the franchise opportunity documentation. During the first quarter of 2008, the Company opened four additional corporately owned clinics in the Houston, TX market. The Company plans on opening four additional corporately owned clinics in the Houston market by the end of the second quarter of 2008 as well as two additional clinics in the already established Dallas, TX market.

On February 18, 2008, the Company announced that it has sold its first franchise of Medifast Weight Control Centers. The Company sold the rights to open four clinics in the Greater Baltimore Metropolitan Area. The franchisee also has the rights to open four additional Medifast Weight Control Centers in the Baltimore area over the next two years, bringing the total to eight locations.

Overall, selling, general and administrative expenses increased by $3.9 million as compared to the first three months of 2007. Advertising expense for the first three months of 2008 was approximately $5.2 million compared to approximately $4.3 million for the same period last year, an increase of $900,000. Salaries and benefits increased by approximately $300,000 in the first 3 months of 2008. The increase includes the hiring of additional expertise in critical areas such as Take Shape for Life and the Medifast Weight Control Centers in the second half of 2007 which have greatly impacted the revenue growth in the first quarter of 2008. Additional personnel were hired in the call center during the first quarter of 2008 as the Company brought the outsourced Take Shape for Life call center in-house early in the second quarter of 2008. Going forward, savings will be realized on call center expense however in the first quarter in-house call center reps had to be hired and trained in preparation for the transition. The opening of four new corporately owned clinics in the Houston, TX market also required the hiring of additional center managers

and support staff. Take Shape for Life commission expense, which is completely variable based upon revenue, increased by approximately $1,900,000 as the Company showed sales growth of 63% as compared to the first three months of 2007. Communication expense, which includes the Take Shape for Life outsourced call center increased by $50,000 based on additional sales order volume. The reduction in outsourced call center expenses will continue in stages throughout 2008 as the call center is brought in-house. Other expenses increased by $550,000 which included items such as depreciation, amortization, credit card processing fees, charitable contributions, and property taxes. Operating expenses increased by $200,000 which primarily resulted from additional printing expense for our direct to consumer postcard mailings as well as maintenance, repairs, and supplies for our manufacturing and distribution facilities.

Costs and Expenses: Cost of revenue increased $1 million to $6.1 million in the first three months of 2008 from $5.1 million for the first three months of 2007. As a percentage of sales, gross margin increased to 75.8% from 74.8% for the first 3 months of 2008. The margin improved due to efficiencies gained from new machinery purchases in prior year as well as new shipping rules that resulted in additional shipping revenue from customers netting against shipping expense.

Income taxes**:** For the first three months of 2008 the Company recorded $668,000 in income tax expense, which represents an annual effective rate of 32.9%. For the first three months of 2007, we recorded income tax expense of $530,000 which reflected an estimated annual effective tax rate of 27.9%. The Company anticipates a tax rate of approximately 32-34% in 2008.

Net income: Net income was $1.4 million for the first three months of 2008 as compared to $1.4 million for the first three months of 2007. Net income remained the same despite sales growth of 25% in the first quarter of 2008 due to the increases in selling, general and administrative expenses described above.

SEGMENT RESULTS OF OPERATIONS

Net Sales by Segment as of March 31,

	2008		2007	
Segments	Sales	% of Total	Sales	% of Total
Medifast	23,480,000	93%	19,037,000	95%
All Other	1,689,000	7%	1,052,000	5%
Total Sales	25,169,000	100%	20,089,000	100%

Three Months Ended March 31, 2008 and March 31, 2007

Medifast Segment: The Medifast reporting segment consists of the sales of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the “Condensed Consolidated Results of Operations” management discussion for the three months ended March 31, 2008 and 2007 above.

All Other Segment: The All Other reporting segment consists of the sales of Hi-Energy and Medifast Weight Control Centers. Sales increased by $637,000 year-over year as a result of an increase in Hi-Energy and Medifast Weight Control Centers sales to $1,689,000. The increase in the Hi-Energy and Medifast Weight Control Centers sales was due to opening new centers in the Houston market in the first quarter, spending increases for advertising, increased advertising effectiveness, improved closing rates on walk-in sales, as well as the hiring of more experienced clinic operators to manage the clinics. During the first quarter of 2008, four additional corporate clinics were opened in the Houston, TX market. The Company had 14 clinics operating at the end of the first quarter of 2008 compared to 11 clinics in operation at the end of the first quarter of 2007.

Net Profit by Segment as of March 31,

	2008		2007	
Segments	Profit	% of Total	Profit	% of Total
Medifast	1,838,000	135%	1,949,000	142%
All Other	(473,000)	-35%	(576,000)	-42%
Total Net Profit	1,365,000	100%	1,373,000	100%

Three Months Ended March 31, 2008 and March 31, 2007

Medifast Segment: The Medifast reporting segment consists of the profits of Medifast Direct, Take Shape for Life, and Doctors. As this represents the majority of our business this is referenced to the “Condensed Consolidated Results of Operations” management discussion for the three months ended March 31, 2008 and 2007 above. See footnote 16, “Business Segments” for a detailed breakout of expenses

All Other Segment: The All Other reporting segment consists of the profit or loss of Hi-Energy and Medifast Weight Control Centers, and corporate expenses related to the parent company operations. Year-over-year, the loss in the All Other segment improved by $103,000. The Hi-Energy and Medifast Weight Control Centers showed an increase in

net profitability year-over-year of $30,000. The increase for the Medifast Weight control centers was due to management fine tuning clinic operations in order to improve profitability. This was offset by the opening of four new clinics in the Houston, TX market during the quarter which led to additional salaries, rent, and advertising expense during the start-up phase with minimal sales volume. Corporate expenses increased by $133,000 year-over-year. Corporate expenses include items such as auditors' fees, attorney's fees, Board of Director expenses, investor relations, corporate consulting, corporate outings, as well as depreciation and property taxes on corporately owned buildings. See footnote 16, "Business Segments" for a detailed breakout of expenses.

Seasonality

The Company's weight management products and programs have historically been subject to seasonality. Traditionally the holiday season in November/December of each year is considered poor for diet control products and services. January and February generally show increases in sales, as these months are considered the commencement of the "diet season." In 2008, seasonality has not been a significant factor. This is largely due to the increase in the consumer's awareness of the overall health and nutritional benefits accompanied with the use of the Company's product line. As consumers continue to increase their association of nutritional weight loss programs with overall health, seasonality will continue to decrease.

Inflation

Inflation generally affects us by increasing the costs of labor, overhead and equipment. The impact of inflation on our financial position and results of operations was minimal during the first quarter of both 2008 and 2007. However, we continue to be negatively impacted by increasing raw material costs.

Item 5. Other Information

Litigation**:**

Leonard Z. Sotomeyer on December 30, 2003 filed an action in the Supreme Court of the State of New York, County of New York, against his former business partner, David Scheffler, and T-1 Holdings, LLC, and included Medifast, Inc., formerly Heathrite, Inc., as a Defendant, Case 604076-03, seeking monetary damages for failure of his former business partner to compensate him under several consulting agreements with Medifast, Inc. made with H-T Capital, Inc. and derivatively on behalf of T-1 Holdings, LLC. The Court dismissed on Defendants' motions Sotomeyer's complaint in its entirety by Order of September 30, 2004. Following an appeal, the Appellate Division, First Department, reinstated the first and second causes of action while affirming the dismissal of Plaintiff's remaining derivative claims by its decision April 13, 2006. The matter is now, again, before the New York Supreme Court for the specific purpose of litigating plaintiff's first and second causes of action only. Medifast has denied any wrongdoing and discovery is ongoing. Medifast believes it continues to have a meritorious defense to the two remaining counts and that any decision rendered would not materially impact the ongoing operations of Medifast, Inc.

Earnings per Share: The Company follows the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share." The calculation of basic and diluted earnings per share ("EPS") is reflected on the accompanying Consolidated Statement of Operations.

Code of Ethics: In August of 2006, the Company updated its Code of Ethics by which directors, officers and employees commit and undertake to personal and corporate growth, dedicate themselves to excellence, integrity and responsiveness to the marketplace, and work together to enhance the value of the Company for the shareholders, vendors, and customers.

Trading Policy: In March 2003, the Company implemented a Trading Policy whereby if a director, officer or employee has material non-public information relating to the Company, 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. Additionally, on October 16, 2006 the Board of Directors approved an updated trading policy in which insiders may purchase or sell MED securities if such purchase or sale is made 7 days after or 14 days before an earnings announcement to include the 10-K or 10-Q in order to insure that investors have available the same information necessary to make investment decisions as insiders.

Evaluation of Disclosure Controls and Procedures:

The Securities and Exchange Commission defines the term “disclosure controls and procedures” to mean a company’s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, as of the end of the period covered by this report, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures at the end of the period covered by this report were effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting:

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Forward Looking Statements: Some of the information presented in this quarterly report constitutes forward-looking statements within the meaning of the private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about management's expectations for fiscal year 2003 and beyond, are forward-looking statements and involve various risks and uncertainties. Although the Company believes that its expectations are based on reasonable assumptions within the bounds of its knowledge, there can be no assurance that actual results will not differ materially from the Company's expectations. The Company cautions investors not to place undue reliance on forward-looking statements which speak only to management's experience on this data.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Medifast, Inc.

BY: /S/ MICHAEL S. MCDEVITT May 12, 2008
Michael S. McDevitt
Chief Executive Officer and Chief Financial Officer
(principal executive officer and principal financial officer)

Index to Exhibits

Exhibit Number	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002