

MEDIFAST INC
Form 10-Q
May 10, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
X ACT OF 1934.**

For the quarter period ended March 31, 2013

OR

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the transition period from _____ to _____ .

Commission file number

Medifast, Inc.

(Exact name of registrant as specified in its charter)

Delaware

13-3714405

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**11445 Cronhill Drive
Owings Mills, MD 21117
Telephone Number: (410) 581-8042**

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 16 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerate filer. See definition of "accelerated filer and large accelerated filer" in Rule 12 b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12 b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 10, 2013
Common stock, \$.001 par value per share	13,809,130

Medifast, Inc. and subsidiaries

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MEDIFAST, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS**

	(Unaudited) March 31, 2013	(Audited) December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49,230,000	\$ 39,937,000
Accounts receivable-net of allowance for sales returns and doubtful accounts of \$601,000 and \$542,000	2,452,000	2,148,000
Inventory	18,419,000	20,804,000
Investment securities	19,669,000	20,057,000
Income taxes, prepaid	-	873,000
Prepaid expenses and other current assets	3,403,000	3,296,000
Deferred tax assets	1,718,000	1,460,000
Total current assets	94,891,000	88,575,000
Property, plant and equipment - net	40,131,000	40,109,000
Trademarks and intangibles - net	296,000	428,000
Other assets	486,000	1,139,000
TOTAL ASSETS	\$ 135,804,000	\$ 130,251,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 30,782,000	\$ 28,221,000
Income taxes payable	181,000	-
Current maturities of long-term debt and capital leases	275,000	528,000
Total current liabilities	31,238,000	28,749,000
Other liabilities		
Long-term debt, net of current portion	-	3,113,000
Capital leases, net of current portion	641,000	696,000
Deferred tax liabilities	6,619,000	6,907,000
Total liabilities	38,498,000	39,465,000
Stockholders' Equity:		
Preferred stock, \$.001 par value (1,500,000 authorized, no shares issued and outstanding)	-	-
Common stock; par value \$.001 per share; 20,000,000 shares authorized; 15,525,955 issued; 13,809,130 and 13,767,380 issued and outstanding	16,000	16,000
Additional paid-in capital	40,737,000	40,191,000

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Accumulated other comprehensive income	594,000	553,000
Retained earnings	82,467,000	76,534,000
Less: cost of 1,608,908 shares of common stock in treasury	(26,508,000)	(26,508,000)
Total stockholders' equity	97,306,000	90,786,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 135,804,000	\$ 130,251,000

The accompanying notes are an integral part of these consolidated financial statements.

MEDIFAST, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended March 31,	
	2013	2012
Revenue	\$ 96,043,000	\$ 88,924,000
Cost of sales	23,634,000	22,169,000
Gross Profit	72,409,000	66,755,000
Selling, general, and administration	63,831,000	60,618,000
Income from operations	8,578,000	6,137,000
Other income		
Interest and dividend income, net	52,000	73,000
Other income	80,000	123,000
	132,000	196,000
Income before income taxes	8,710,000	6,333,000
Provision for income taxes	2,777,000	2,343,000
Net income	\$ 5,933,000	\$ 3,990,000
Basic earnings per share	\$ 0.43	\$ 0.29
Diluted earnings per share	\$ 0.43	\$ 0.29
Weighted average shares outstanding -		
Basic	13,809,130	13,676,922
Diluted	13,913,343	13,827,821

The accompanying notes are an integral part of these consolidated financial statements.

MEDIFAST, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Three Months Ended March 31,	
	2013	2012
Net income	\$ 5,933,000	\$ 3,990,000
Other comprehensive income, net of tax		
Change in unrealized gains/losses on marketable securities:		
Change in fair value of marketable securities, net of tax	104,000	185,000
Adjustment for net (gains)/losses realized and included in net income, net of tax	(63,000)	(47,000)
Total change in unrealized gains/losses on marketable securities, net of tax	41,000	138,000
Other comprehensive income	41,000	138,000
Comprehensive income	\$ 5,974,000	\$ 4,128,000

The accompanying notes are an integral part of these consolidated financial statements.

MEDIFAST, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****Three Months Ended March 31, 2013****(Unaudited)**

	Number of Shares Issued	Par Value \$0.001 Amount	Additional Paid- In Capital	Retained Earnings	Accumulated other comprehensive income	Treasury Stock	Total
Balance, December 31, 2012	15,525,955	\$ 16,000	\$ 40,191,000	\$ 76,534,000	\$ 553,000	\$(26,508,000)	\$ 90,786,000
Share-based compensation to executives and directors			546,000				546,000
Net income				5,933,000			5,933,000
Net change in unrealized gain on investments					41,000		41,000
Balance, March 31, 2013	15,525,955	\$ 16,000	\$ 40,737,000	\$ 82,467,000	\$ 594,000	\$(26,508,000)	\$ 97,306,000

The accompanying notes are an integral part of these consolidated financial statements.

MEDIFAST, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 5,933,000	\$ 3,990,000
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Depreciation and amortization	2,630,000	2,381,000
Realized gain on investment securities, net	(23,000)	(13,000)
Share-based compensation	546,000	573,000
Deferred income taxes	(557,000)	111,000
Loss on disposal of fixed assets	15,000	40,000
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	(304,000)	(700,000)
Inventory	2,385,000	4,622,000
Prepaid expenses and other current assets	(107,000)	(585,000)
Other assets	647,000	251,000
Accounts payable and accrued expenses	2,561,000	7,333,000
Income taxes	1,054,000	2,705,000
Net cash provided by operating activities	14,780,000	20,708,000
Cash Flow from Investing Activities:		
Sale of investment securities	2,578,000	2,582,000
Purchase of investment securities	(2,115,000)	(2,859,000)
Purchase of property and equipment	(2,535,000)	(2,492,000)
Net cash used in investing activities	(2,072,000)	(2,769,000)
Cash Flow from Financing Activities:		
Repayment of long-term debt and capital leases	(3,421,000)	(270,000)
Decrease in note receivable	6,000	4,000
Net cash used in financing activities	(3,415,000)	(266,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,293,000	17,673,000
Cash and cash equivalents - beginning of the period	39,937,000	14,262,000
Cash and cash equivalents - end of period	\$ 49,230,000	\$ 31,935,000
Supplemental disclosure of cash flow information:		
Interest paid	\$ 30,000	\$ 29,000
Income taxes paid	\$ 2,183,000	\$ 515,000

The accompanying notes are an integral part of these consolidated financial statements.

Medifast, Inc. and subsidiaries

Notes to Unaudited 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.

The results for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013 or any other portions thereof. Certain information in footnote disclosures normally included in annual financial statements has been condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim consolidated financial statements.

These financial statements do not contain all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair presentation of the financial position and results of operations have been included.

The consolidated balance sheet as of December 31, 2012 is derived from the audited financial statements included in the Company's Annual Report in Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2012 (the 2012 form 10-K), which should be read in conjunction with these consolidated financial statements.

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.

Certain amounts reported for prior periods have been reclassified to be consistent with the current period presentation. No reclassification in the consolidated financial statements had a material impact on the presentation.

3. Recent Accounting Pronouncements

We have considered all new accounting pronouncements and have concluded that there are no new pronouncements that may have a material impact on our results of operations, financial condition, or cash flows, based on current information.

4. Revenue Recognition

Revenue is recognized net of discounts, rebates, promotional adjustments, price adjustments, and estimated returns and upon transfer of title and risk to the customer which primarily occurs at shipping (F.O.B. terms). Upon shipment, the Company has no further performance obligations and collection is reasonably assured as the majority of sales are paid for prior to shipping. Medifast Weight Control Centers' program fees are recognized over the estimated service period.

5. Inventories

Inventories consist principally of packaged meal replacements held in the Company's warehouses. 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. On a quarterly basis, management reviews inventory for unsalable or obsolete inventory.

Inventories consisted of the following at March 31, 2013 and December 31, 2012:

	2013	2012
Raw Materials	\$5,828,000	