



## Fraud Discovery Institute Debunks Medifast Inc. Response To Report

*FDI raises new questions about Medifast Inc.'s (NYSE:MED) use of a small, one office accounting firm to audit company books; calls it Madoff-like.*

For Immediate Release

SAN DIEGO/EWORLDWIRE/Feb. 18, 2009 --- The Fraud Discovery Institute Inc. (FDI) has just released a rebuttal to the Medifast Inc. (NYSE:MED) press release whereby the company claims that less than one percent of its commissions from 2008 is related to recruiting and none of that revenue is paid out to coaches as part of their compensation. Expert Robert FitzPatrick notes that: "This statement is yet another example of Medifast's policy of diversion and concealment concerning its endless chain pay scheme. It appears to refer only to fees for joining the scheme as a recruiter. These fees range from \$100 to \$300 per recruiter with the two fee options offering respectively higher levels of reward. Medifast's endless chain money transfer is facilitated not in fees - these are only the tickets of admission - but in product sales, which are gained by misleading income claims and promises, based on the endless chain pay scheme."

He continues: "By referencing only fees, Medifast omits from its denial that approximately 50 percent of Take Shape for Life's revenue from product purchases is transferred from recruits to Medifast's multi-level recruiters. The great majority of this sum is transferred to those in the upper levels of the recruitment pyramid. The endless chain lure and payment system used by Medifast is a deceptive marketing practice in which consumers are lured to pay fees and make product purchases as coaches and are offered rewards for recruiting other coaches in an endless chain. Income promises and claims are based on unlimited expansion in a limited marketplace. The pay plan is a blueprint for endless chain recruiting, offering far more rewards and incentives for recruiting than retailing. This recruitment-based pay plan is being hyped to new levels as a lucrative business opportunity during a recession.

"Moreover, the company claims to be a member of the Direct Sellers Association, which is neither a government agency nor a consumer advocacy group and whose members have included such companies as Trek Alliance, which was prosecuted by the FTC for operating as a pyramid scheme and fined for making false income claims, and Your Travel Biz, currently being sued by the Attorney General of California for violating Penal Code 327 - the same claim made by FDI in its recent report about Medifast Inc."

Barry Minkow, co-founder of the Fraud Discovery Institute Inc., states that: "For Medifast Inc. to defend endless chain pyramid allegations by stating its proud affiliation with the Direct Sellers Association would be the moral equivalent of Bernie Madoff saying that he attended the Charles Ponzi School of Investment Advisors."

Minkow also questions why a Maryland-based, New York Stock Exchange public company utilizes the services of a small, one location regional accounting firm - recently inspected by the PCAOB ('[http://www.pcaobus.org/Inspections/Public\\_Reports/2008/Bagell\\_Josephs\\_Levine.pdf](http://www.pcaobus.org/Inspections/Public_Reports/2008/Bagell_Josephs_Levine.pdf)') with a total of six partners in the entire firm and who are located in Marlton, N.J., to audit its books. National accounting firms with experience in dealing with product based, multi-level marketing companies know from experience to insist on material disclosures in SEC filings of things like failure and attrition rates, saturation and other relevant data that any new coach recruit would need to evaluate before taking the plunge into the Take Shape for Life business opportunity. The choice of this firm appears to strategically allow the company to get away with making fewer disclosures than any other public company in the industry." Minkow added, "I believe that is yet another point of similarity with the Madoff enterprise."

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