EDIETS COM INC
Form 10-Q
November 14, 2008
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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008	**Commission File Number 0-30559**

eDiets.com, Inc.

(Exact name of issuer as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**56-0952883** **(I.R.S. Employer** **Identification No.)**

1000 Corporate Drive, Suite 600

Fort Lauderdale, Florida 33334

(Address of principal executive offices)

(954) 360-9022

(Issuer s telephone number, including area code)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the issuer is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller-reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of October 27, 2008:

Common Stock, $.001 par value per share	25,153,714 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EDIETS.COM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,531	$ 7,132
Accounts receivable, net	1,069	1,178
Prepaid meal delivery	175	270
Prepaid expenses and other current assets	646	814
Total current assets	3,421	9,394
Restricted cash	830	1,174
Property and office equipment, net	4,344	3,633
Intangibles, net	509	1,209
Goodwill	12,026	12,026
Other assets	256	255
Total assets	$ 21,386	$ 27,691
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 890	$ 1,339
Accrued liabilities	2,252	2,797
Current portion of capital lease obligations	86	479
Deferred revenue	1,898	1,674
Total current liabilities	5,126	6,289
Capital lease obligations, net of current portion	84	303
Deferred revenue	1,813	1,990
Senior secured notes, net related party	8,799	6,247
Commitments and contingencies		
STOCKHOLDERS EQUITY:		
Common stock	25	25
Additional paid-in capital	45,316	41,191
Accumulated other comprehensive loss	(120)	(150)
Accumulated deficit	(39,657)	(28,204)
Total stockholders equity	5,564	12,862

Total liabilities and stockholders equity	$ 21,386	$ 27,691

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

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EDIETS.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
REVENUE				
Digital plans	$ 2,079	$ 4,369	$ 7,815	$ 15,625
Meal delivery	1,417	1,035	8,239	2,427
Other	1,257	1,431	3,914	4,777
TOTAL REVENUE	4,753	6,835	19,968	22,829
COSTS AND EXPENSES:				
Cost of revenue				
Digital plans	640	787	1,838	2,443
Meal delivery	1,407	944	8,530	2,233
Other	108	155	317	411
Total cost of revenue	2,155	1,886	10,685	5,087
Technology and development	1,083	883	3,056	2,774
Sales, marketing and support	2,190	4,218	9,685	13,787
General and administrative	1,403	1,860	5,041	5,233
Amortization of intangible assets	176	303	705	908
Total costs and expenses	7,007	9,150	29,172	27,789
Loss from operations	(2,254)	(2,315)	(9,204)	(4,960)
Interest income	20	70	95	167
Interest expense	(946)	(195)	(2,324)	(207)
Income tax provision	(19)	(55)	(20)	(197)
Net loss	$ (3,199)	$ (2,495)	$ (11,453)	$ (5,197)
Loss per common share:				
Basic and diluted	$ (0.13)	$ (0.10)	$ (0.46)	$ (0.21)
Weighted average common and common equivalent shares outstanding:				
Basic and diluted	25,150	24,880	25,103	24,765

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

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EDIETS.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (11,453)	$ (5,197)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,127	759
Amortization of intangibles	705	908
Amortization of discount and expenses, senior secured notes related party	836	
Provision for bad debt	82	17
Stock-based compensation	1,322	1,180
Deferred tax benefit		(4)
Loss on disposal of fixed assets	1	161
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	27	118
Prepaid expenses and other assets	234	96
Accounts payable and accrued liabilities	741	(109)
Deferred revenue	55	(776)
Net cash used in operating activities	(6,323)	(2,847)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Earnout from acquisition of Nutrio		(1,250)
Changes in restricted cash	344	(500)
Purchases of property and office equipment, net	(1,829)	(1,162)
Net cash used in investing activities	(1,485)	(2,912)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	299	381
Proceeds from senior secured notes related party	2,500	9,800
Repayment of capital lease obligations	(622)	(267)
Net cash provided by financing activities	2,177	9,914
Effect of exchange rate changes on cash and cash equivalents	30	(23)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,601)	4,132
Cash and cash equivalents, beginning of period	7,132	6,015
Cash and cash equivalents, end of period	$ 1,531	$ 10,147
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 95	$ 18
Cash paid for income taxes	$ 83	$ 32

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES				
Equipment acquired under capital leases	$	10	$	628

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

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(Unaudited)

1. ORGANIZATION

eDiets.com, Inc. (the Company) was incorporated in the State of Delaware on March 18, 1996 for the purpose of developing and marketing Internet-based diet and fitness programs. The Company markets its products both to consumers and to businesses primarily in North America.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. All the adjustments which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown are of a normal recurring nature and have been reflected in the unaudited condensed consolidated financial statements. Results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The information included in these unaudited condensed consolidated financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

The Company s condensed consolidated financial statements for the three and nine months ended September 30, 2008 have been prepared on a going-concern basis, which contemplates the realization of assets and liabilities and commitments in the normal course of business. The Company has realized net losses and net decreases in cash and cash equivalents during the three and nine month periods ended September 30, 2008 and 2007.

At September 30, 2008, the Company had a net working capital deficit of $1.7 million, compared to net working capital of $3.1 million at December 31, 2007. Cash and cash equivalents at September 30, 2008 were $1.5 million, a decrease of $5.6 million from the balance of $7.1 million at December 31, 2007. In 2007, the Company s principal source of liquidity was borrowing $10 million, in the third quarter of 2007, with a three-year term from Prides Capital Partners LLC (Prides), the Company s majority shareholder, to invest in opportunities to grow the business, including advertising its meal delivery program and upgrading its technology platform. On May 30, 2008 the Company executed a Note and Warrant Purchase Agreement with Prides in which the Company borrowed an additional $2.6 million from Prides, with a three year term, to be used for general corporate purposes. In the Note and Warrant Purchase Agreement, Prides irrevocably committed to provide the Company with an additional $2.55 million in Senior Secured Notes by June 30, 2008, with terms similar to the Senior Secured Note from May 2008 and as set forth in the Note and Warrant Purchase Agreement. On November 13, 2008, Prides provided the additional $2.55 million in Senior Secured Notes as required by the Note and Purchase Agreement. Prides has represented its intention to provide the necessary level of financial support to the Company to enable it to pay its debts as they become due through December 31, 2008. The Company expects that cash required for operations and capital expenditures for the remainder of fiscal year 2008 will be in the range of $1.3 million to $1.8 million.

Management believes that cash and cash equivalents as of September 30, 2008 of $1.5 million together with the additional financial support from Prides are sufficient to fund operations for the remainder of the year. To the extent the Company requires additional funds to support its operations or the expansion of its business it may seek to undertake additional equity financing. There can be no assurance that additional financing, if required, will be available to the Company in amounts or on terms acceptable to the Company, or at all.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Significant Accounting Policies

The Company offers memberships to the proprietary content contained in its Web sites. Revenues from customer subscriptions are paid in advance mainly via credit/debit cards. Subscriptions to the Company s digital plans are paid in advance and cash receipts are deferred and recognized as revenue on a straight-line basis over the period of the digital plan subscription. Beginning in January 2008, the Company began to offer a guarantee to all customers, under which if a customer did not meet their weight loss goal upon completion of consecutive 6-months of digital subscription and met the guarantee requirements they would receive the next 6-months of digital subscription for free. The Company recognizes digital subscription revenue over the potential term of twelve months of digital subscription or until the subscriber no longer meets the guarantee requirements, whichever comes first.

In accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent* (EITF 99-19), the Company recognizes gross digital subscription revenues associated with licensed diet and fitness plans based on the relevant facts of the related license agreements, while the license fee incurred to the licensor is included in cost of revenues.

Meal delivery revenue is recognized when the earnings process is complete, which is upon transfer of title of the product. This transfer occurs upon shipment from the Company s fulfillment center to the end-customer. Meal delivery revenue includes amounts billed for shipping. In accordance with EITF 99-19, the Company recognizes gross meal delivery revenues based on the relevant fact that the Company is the primary obligor and has assumed asset risk before the customers place any orders. Beginning in January 2008, the Company began offering two promotions: a) buy 7 weeks of meal delivery and get the 8^{th} week for free and b) buy a meal delivery program and get a free non-cash gift. For the first promotion and in accordance with EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products)* (EITF 01-09), the Company recognizes the cost of the free offer as cost of revenue proportionally over the term of the meal delivery subscription or until the customer cancels and no longer is entitled to the free offer. For the second promotion and in accordance with EITF 01-09, the Company recognizes meal delivery revenue when the meals are shipped and the cost of the free non-cash gift as cost of sales when the non-cash gift is shipped.

Business-to-business revenue relates to the Company s eDiets Corporate Services subsidiary. eDiets Corporate Services generates three types of business-to-business revenue. Licensing and development revenues are accounted for in accordance with EITF 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21). Development revenue relates to the planning, design and development of websites for customers. Both licensing and development revenues are recognized on a straight line basis over the license period once the website is launched. Consulting revenue relates to consulting services provided to customers and revenue is recognized when services and/or deliverables are completed and collection is probable.

Advertising revenue is recognized in the period the advertisement is displayed, provided that no significant Company obligation remains and collection is probable. Company obligations typically include guarantees of a minimum number of impressions or times that visitors to the Company s website view an advertisement. Amounts received or billed for which impressions have not yet been delivered are reflected as deferred revenue. Opt-in email revenue is derived from the sale of email addresses of visitors to the Company s websites who have authorized the Company to allow third party solicitations. Revenues from the sale of email addresses are recognized when no significant Company obligation remains and collection is probable.

Ecommerce revenue is currently derived from the sale of the Company s various health and fitness store products, including vitamin supplements, to consumers. The Company offers an unconditional 30-day guarantee on all of its products. In accordance with the Statement of Financial Accounting Standards No. 48, *Revenue Recognition When Right of Return Exists* (SFAS 48), the Company recognizes revenue on those products only when the guarantee period lapses.

Royalty revenue is derived from the exclusive technology licensing agreement related to the Company s operations in the United Kingdom and Ireland and is being recognized on a straight-line basis, as well as an ongoing royalty agreement on future subscriptions and advertising revenue derived from the ownership transfer of the German, Spanish and Portuguese websites.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company establishes a reserve for refunds, as all digital plan subscriber payments are deferred upon receipt, and at the end of each month a portion of the deferred revenue is reclassified as a reserve for refunds. Based on historical experience, approximately 1% of digital plan subscriber sales will result in a refund issued in the subsequent month after sale. All other refunds issued relate to current month digital plan subscriber sales. Because the revenue has not been recognized, refunds do not result in a reversal of digital plan subscription revenue. Instead, refunds result in a decrease to the amounts maintained in deferred revenue. The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to calculate the reserve for refunds. However, if actual results are not consistent with the estimates or assumptions stated above, the Company may be exposed to income or losses that could be material to the condensed consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which clarifies how to measure fair value and requires enhanced fair value measurement disclosures. The standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement and sets out a fair value hierarchy with the highest priority being quoted prices in active markets for identical assets or liabilities. The Company adopted SFAS 157 on January 1, 2008. The adoption of SFAS 157 had no impact on the Company s consolidated financial position or results of operations. See Note 3 Fair Value Measurements for further discussion.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Company adopted SFAS 159 on January 1, 2008. The adoption of SFAS 159 had no impact on the Company s consolidated financial position or results of operations.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, *Business Combinations* (SFAS 141R). This Statement replaces SFAS 141. SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will apply the provisions of SFAS 141R to any acquisitions after the effective date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. In addition to the amendments to ARB 51, this Statement amends SFAS 128, *Earnings per Share;* so that earnings-per-share data will continue to be calculated the same way those data were calculated before this Statement was issued. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company will apply the provisions of SFAS 160 to any noncontrolling interests acquired after the effective date.

EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which removed leasing transactions accounted for under FAS No. 13 and related guidance from the scope of FAS No. 157. Also in February 2008, the FASB issued Staff Position No.157-2, *Partial Deferral of the Effective Date of Statement 157*, which deferred the effective date of FAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Company does not anticipate any impact of adopting FSP 157-1 and FSP 157-2 on its financial position, cash flows, and results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires enhanced disclosure related to derivatives and hedging activities and thereby seeks to improve the transparency of financial reporting. Under SFAS 161, entities are required to provide enhanced disclosures relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133 for all financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not anticipate any impact of adopting SFAS 161 on its financial position, cash flows, and results of operations.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*. FSP 142-3 is effective for fiscal years beginning after December 31, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently assessing the impact that FSP 142-3 will have on its financial position, cash flows, and results of operations.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not anticipate any impact of adopting SFAS 162 on its financial position, cash flows, and results of operations.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (APB 14-1). APB 14-1 requires that issuers of convertible debt instruments that, upon conversion, may be settled fully or partially in cash, must separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and is to be applied retrospectively to all past periods presented, even if the instrument has matured, converted, or otherwise been extinguished as of APB 14-1 effective date. The Company is currently assessing the impact APB 14-1 will have on its financial position, cash flows, and results of operations.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. While the Company believes that such estimates are fair when considered in conjunction with the condensed consolidated financial position and results of operations taken as a whole, the actual amount of such estimates, when known, may vary from these estimates.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. FAIR VALUE MEASUREMENTS

The Company adopted SFAS 157 as of January 1, 2008. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of September 30, 2008, the Company does not have any financial assets or liabilities that require measurement at fair value.

4. INTANGIBLES AND GOODWILL

Intangible assets related to the acquisition of Nutrio.com, Inc. (Nutrio) in May 2006 are being amortized using the straight-line method over periods ranging from 2-5 years with a weighted average life of approximately 2.8 years. The Company reviews each indefinite-lived intangible asset and goodwill on an annual basis, or more frequently if events and circumstances warrant, to determine if any impairment exists.

At September 30, 2008 the Company had $12.0 million in goodwill. Approximately $6.8 million of goodwill relates to the U.S. business-to-business reporting unit and was recorded as a result of the Nutrio acquisition and the remaining $5.2 million of goodwill relates to the U.S. business-to-consumer reporting unit.

5. REVENUE RECOGNITION

Revenue by type is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Digital	$ 2,079	$ 4,369	$ 7,815	$ 15,625
Meal delivery	1,417	1,035	8,239	2,427
Business-to-business	935	713	2,573	1,797
Advertising	189	521	838	2,136
Ecommerce	10	37	29	103
Royalties	123	160	474	741
	$ 4,753	$ 6,835	$ 19,968	$ 22,829

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. DEFERRED REVENUE

Deferred revenue consists of the following at September 30, 2008 and December 31, 2007 (in thousands):

	September 30, 2008	December 31, 2007
Deferred revenue		
Unearned digital plan revenue	$ 516	$ 901
Unearned meal delivery revenue		77
Unearned development revenue	1,164	406
Unearned licensing revenue	33	101
Deferred royalty	1,998	2,179
Total deferred revenue	3,711	3,664
Less: current portion of deferred revenue	(1,898)	(1,674)
Non-current portion of deferred revenue	$ 1,813	$ 1,990

7. STOCK-BASED COMPENSATION

The Company grants stock options and restricted stock awards to its employees, officers and directors. In November 2004, the Company adopted the eDiets.com, Inc. 2004 Equity Incentive Plan (the Incentive Plan) (as amended effective May 6, 2008). The Incentive Plan provides for the grant of incentive stock options or ISOs , non-qualified stock options or NSOs , stock appreciation rights or SARs , restricted stock, deferred stock and unrestricted stock. The Plan is administered by the Governance Committee of the Board of Directors (the Committee). A maximum of 3,200,000 shares of Common Stock may be delivered in satisfaction of awards made under the Incentive Plan. The maximum number of shares of Common Stock that may be issued pursuant to the exercise of ISOs and NSOs is 800,000 each. The maximum benefit that would be paid to any person under the Incentive Plan in any calendar year is 450,000 shares. The term of any option granted under the Incentive Plan may not exceed ten years. SARs may be granted either in tandem with or independent of stock options. The Incentive Plan provides for awards of nontransferable shares of Common Stock subject to repurchase or forfeiture. The minimum period that restrictions must remain in place is three years unless the restricted Common Stock is also subject to performance conditions, in which case the minimum period is one year. The Incentive Plan prohibits the Committee from waiving these restriction periods. The Incentive Plan also provides for awards of unrestricted stock, but no more than 90,000 shares in the aggregate may be granted at less than fair market value. The Incentive Plan also provides for deferred grants entitling the recipient to receive Common Stock upon satisfaction of conditions determined by the Committee in its discretion. As of September 30, 2008, there were 312,940 shares of restricted stock and 1,189,842 options outstanding under the Incentive Plan.

In November 1999, the Company adopted the eDiets.com, Inc. Stock Option Plan (the Plan) (as amended and restated effective April 1, 2002). The Plan, as amended, provides for the grant of incentive stock options and non-qualified stock options to purchase up to 5,000,000 shares of the Company s common stock to employees, directors and consultants to the Company. Options granted to employees under the Plan generally vest ratably over a two- or three-year period and expire five or ten years from the date of grant. Such options generally have an exercise price equal to the fair market value of the underlying common stock at the grant date and are fully exercisable on the date of grant for a period of up to five to ten years. As of September 30, 2008, 1,277,319 options are outstanding under the Plan.

The Company accounts for its stock-based compensation plans in accordance with FASB Statement No. 123R, *Share-Based Payment*, and related interpretations (SFAS 123R). Under the provisions of SFAS 123R, the Company estimates the fair value of each stock option on the date of grant using a Black-Scholes-Merton (BSM) option-pricing formula, applying the following assumptions, and amortizes that value to expense over the option s vesting period using the straight-line attribution method.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Expected term (in years)	2.5	3.4	3.0	3.7
Risk-free interest rate	2.5%	4.3%	2.5%	4.5%
Expected volatility	62.4%	63.2%	62.0%	64.4%
Expected dividend yield	%	%	%	%

Expected Term: The expected term represents the period over which the share-based awards are expected to be outstanding for employees and directors. For directors, effective January 1, 2007, and for employees and officers, effective January 1, 2008, the Company uses the historical exercise experience in determining the expected term. Prior to that the Company used the shortcut method described in Staff Accounting Bulletin Topic 14.D.2, which is based on a calculation to arrive at the midpoint between the vesting date and the end of the contractual term.

Risk-Free Interest Rate: The Company based the risk-free interest rate used in its assumptions on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the stock option award s expected term.

Expected Volatility: The volatility factor used in the Company s assumptions is based on the historical price of its stock from 2001 to the current period because the Company believes that this extended period reflects the true Company history.

Expected Dividend Yield: The Company does not intend to pay dividends on its common stock for the foreseeable future. Accordingly, the Company uses a dividend yield of zero in its assumptions.

As required by SFAS 123R, the Company estimates forfeitures of employee stock options and restricted stock awards and recognizes compensation cost only for those awards expected to vest. Forfeiture rates are determined for three groups (employees, officers and directors) based on historical experience. Estimated forfeitures are adjusted to the actual forfeiture experience as needed.

During the three months ended September 30, 2008 and 2007, the Company recognized stock-based compensation expense under SFAS 123R (related to stock options and restricted stock awards) of $0.3 million and $0.5 million, respectively. During the nine months ended September 30, 2008 and 2007, the Company recognized stock-based compensation expense under SFAS 123R (related to stock options and restricted stock awards) of $1.0 million and $1.2 million, respectively. The breakdown of stock-based compensation expense per line item on the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2008 and 2007, is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cost of revenue	$ 7	$ 12	$ 26	$ 29
Technology and development	61	94	215	228
Sales, marketing and support	79	92	301	250
General and administrative	141	265	503	660
	$ 288	$ 463	$ 1,045	$ 1,167

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

A summary of option activity under the Company s stock plans as of September 30, 2008 and the changes during the first nine months of 2008 are presented below (shares in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value ($000)
Outstanding at December 31, 2007	1,868	$ 3.88	4.25	$ 3,667
Granted	826	5.13		
Exercised	(90)	3.33		
Forfeited	(29)	5.32		
Expired	(108)	4.77		
Outstanding at September 30, 2008	2,467	$ 4.26	3.87	$ 188
Vested or expected to vest at September 30, 2008	2,215	$ 4.24	3.84	$ 186
Exercisable at September 30, 2008	1,286	$ 3.92	3.62	$ 183

The weighted-average fair value of stock options granted during the three and nine months ended September 30, 2008 was $1.53 and $2.21, respectively. The weighted-average fair value of stock options granted during the three and nine months ended September 30, 2007 was $1.65 and $1.86, respectively.

The total intrinsic value of stock options exercised was $0.1 million and $0.3 million for the nine months ended September 30, 2008 and 2007, respectively, and less than $0.1 million for the three months ended September 31, 2007. There were no exercises of stock options in the three months ended September 31, 2008. As of September 30, 2008, there was $1.5 million of total unrecognized compensation cost related to the stock options granted under the Company s stock plans. That cost is expected to be recognized over a weighted-average period of 1.97 years.

Cash received from the exercise of stock options under the Company s stock plans for the nine months ended September 30, 2008 was $0.3 million.

A summary of the restricted stock awards under the Company s Incentive Plan for the nine months ended September 30, 2008 is presented below (shares in thousands):

	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested at December 31, 2007	297	$ 3.96
Granted	85	5.62
Vested	(77)	5.64
Forfeited	(38)	4.49

Non-vested at September 30, 2008	267	$	4.89

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The total fair value of restricted stock that vested in each of the three months ended September 30, 2008 and 2007 was less than $0.1 million. The total fair value of restricted stock that vested in the nine months ended September 30, 2008 and 2007 was $0.4 million and $0.2 million, respectively. The non-vested restricted stock listed above is expected to vest at the following times: 3,939 shares in the remainder of 2008, 38,000 shares in 2009, and the remaining 225,000 shares in 2011 upon achievement of performance goals that are not currently deemed probable by management as of September 30, 2008.

As of September 30, 2008, there was $0.1 million of total unrecognized compensation cost related to restricted stock awards granted under the Company s stock plans. As the restricted stock is subject to graded vesting, the cost is being recognized on an accelerated basis over a weighted-average period of 0.5 years.

In February 2008, an award of 225,000 shares of restricted stock, which was granted to an officer in the second quarter of 2007, was modified in conjunction with a new employment agreement. The modification incorporated performance-based vesting conditions to these shares which are not deemed probable of achievement as of September 30, 2008 and, as a result, no compensation expense has been recorded during the three or nine months ended September 30, 2008 related to these restricted shares. In addition, in March 2008, 69,000 shares of restricted stock were awarded to an officer, subject to performance-based vesting conditions. Performance conditions have been established for one third, or 23,000 shares, which will vest in March 2009 if the performance condition is achieved. Performance conditions have not been established for the remaining 46,000 shares, and thus no compensation expense has been recorded during the three or nine months ended September 30, 2008 related to these restricted shares. At the time that the performance conditions are established, the value of these shares will be determined and the resulting compensation cost recorded. These 46,000 shares have been excluded from the summary of restricted stock awards activity above.

8. DEBT TRANSACTIONS

On August 31, 2007 the Company borrowed $10 million from Prides Capital Partners, LLC (Prides), the Company s majority shareholder, in the form of a Senior Secured Note and accompanying agreements (First Note). The First Note calls for semi-annual interest payments at a rate of 15% per annum. The interest can be paid in cash or in equity at the discretion of the Company. The proceeds from the First Note were used to invest in advertising to grow the business, the Company s technology platform upgrade and for general corporate purposes. The maturity date of the First Note is August 31, 2010 but it may be paid earlier, at the Company s discretion, with no penalty. The First Note has a conversion feature allowing Prides to exercise an option to require the Company to repay the First Note at maturity through the issuance of equity at $3.29 per share. In the event that Prides exercises that option, the principal payment of the First Note would represent approximately 3,039,000 shares of the Company s common stock. The Company chose to add to principal the first and second semi-annual interest payments which were due in March and September 2008. These additional principal amounts represent approximately 230,000 and 250,000 shares of the Company s common stock, respectively. At the market value of the Company s common stock on September 30, 2008, or $3.40, the excess of the aggregate fair value that Prides will receive at conversion over debt proceeds is approximately $0.4 million. These diluted potential common shares were not included in the diluted loss per share for the three and six months ended September 30, 2008 as the effect would have been anti-dilutive.

In accordance with Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), EITF Issue No. 01-6, *The Meaning of Indexed to a Company s Own Stock* (EITF 01-6), EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock* (EITF 00-19), the Company determined that the conversion feature is not an embedded derivative that needs to be separated from the First Note and accounted for separately as a derivative under SFAS 133 as it is indexed to its own stock within the meaning of EITF 01-6 and is classified as Stockholders Equity in the Company s balance sheet per the provisions of EITF 00-19. Therefore, in accordance with EITF Issue No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF Issue No. 00-27, *Application of Issue 98-5 to Certain Convertible Instruments* (EITF 00-27), this conversion feature is considered a beneficial conversion feature and is being treated as a note discount with a fair value of approximately $2.3 million, which will be amortized to interest expense over the three-year term of the First Note using the effective interest method. In the event that the Company chooses to pay its additional semi-annual interest costs in equity it may result in additional beneficial conversion features which would be treated as note discounts and amortized over the remaining term of the First Note using the effective interest method. As of September 30, 2008, the Company has amortized $0.5 million of the beneficial conversion feature discount.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Additionally, in connection with the financing, warrants to purchase one million shares of the Company s common stock at $5.00 per share were issued to Prides. The warrants have a 10-year term and are redeemable at the option of the Company, with thirty days written notice to Prides, upon the occurrence of the following events: (i) the closing sales price per share of the common stock is in excess of 150% of the warrant price ($7.50 per share) for more than thirty consecutive trading days, (ii) the warrants are either registered for resale pursuant to an effective registration statement naming Prides as a selling stockholder thereunder or freely transferable without volume restrictions pursuant to Rule 144(k) promulgated under the Securities Act, and (iii) the Company complied in all material respects with its obligations under the warrant and the common stock was at all times listed on the AMEX, New York Stock Exchange, the Nasdaq National Market, the Nasdaq Capital Market or the OTC Bulletin Board. In conjunction with this transaction, the Company determined in accordance with Accounting Principles Board Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*, that the warrants have a relative fair value of $1.8 million, which is treated as a note discount and amortized over the three-year term of the First Note using the effective interest method. As of September 30, 2008, the Company has amortized $0.4 million of this discount.

In connection with the May 2008 transaction described below, these warrants are subsequently subject to anti-dilution protection in relation to the issuance by the Company of additional shares such as sale, merger, liquidation, dissolution or winding up of the Company (each, a Liquidity Event), or any other transaction that results in a dilution of the Per Share Warrant Price except for those stock transactions that are excluded such as issuance of options, warrants or other rights (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like after May 30, 2008) issued or to be issued after May 30, 2008 to employees, officers or directors of, or consultants or advisors to the Company or any subsidiary, pursuant to stock purchase or stock option or employee benefit plans or other arrangements that are approved by the board of directors of the Company.

The Company incurred $0.2 million in issuance costs paid directly to Prides in connection with the First Note. In accordance with EITF 00-27, these issuance costs are treated as a note discount and are being amortized over the three-year term of the First Note using the effective interest method. As of September 30, 2008, the Company has amortized approximately $49,000 of this discount.

As of September 30, 2008, the Company concluded that the carrying value of the First Note is indicative of its fair value and this was calculated to be $8.2 million as follows (in thousands):

Senior secured note	$ 10,000
Paid in-kind interest	1,583
Discount related to warrants, net	(1,400)
Discount related to beneficial conversion feature, net	(1,843)
Discount related to issuance costs, net	(153)
	$ 8,187

The Company recorded approximately $2.0 million of interest expense, including amortization of the note discounts of $0.8 million, related to the First Note during the nine months ended September 30, 2008. The principal payment of the First Note in the amount of $10 million plus paid in-kind interest of $1.6 million is due upon maturity on August 31, 2010.

On May 30, 2008 the Company borrowed an additional $2.6 million from Prides in the form of a Senior Secured Note and accompanying agreements (Second Note). The Second Note calls for quarterly interest payments at a rate of 18% per annum. The interest can be paid in cash provided that Prides notifies the Company no less than 15 days prior to such payment date and if no notice is given such accrued interest will be added to the principal amount of the Second Note. The proceeds from the Second Note will be used for general corporate purposes. The maturity date of the Second Note is June 30, 2011 but it may be paid earlier, subject to a penalty. The Second Note contains an optional prepayment clause as well as a mandatory prepayment clause. The optional prepayment clause indicates that all or any portion of the principal and accrued and unpaid interest under this Note may not be paid prior to the Maturity Date without the written consent of Prides upon fifteen (15) days prior written notice to Prides, provided, however, that (i) if any such prepayment is made on or before June 30, 2009, such prepayment shall include a prepayment premium

EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

of 5% of the prepaid amount, and (ii) if any such prepayment is made after June 30, 2009 and on or before June 30, 2010, such prepayment shall include a prepayment premium of 3% of the prepaid amount. The Mandatory prepayment clause indicates that no later than 15 days after the closing of any public or private sale by the Company of its equity except for Exempt Sales (as defined in the agreement), the Company shall prepay 100% of the outstanding Second Note plus any accrued and unpaid interest to the date of such prepayment, provided, however, that (i) if any such prepayment is made on or before June 30, 2009, such prepayment shall include a prepayment premium of 5% of the prepaid amount, and (ii) if any such prepayment is made after June 30, 2009 and on or before June 30, 2010, such prepayment shall include a prepayment premium of 3% of the prepaid amount.

The Second Note has a conversion feature allowing Prides to exercise an option to require the Company to repay the Note at maturity through the issuance of equity at $4.67 per share. In the event that Prides exercises that option, the principal payment of the Second Note would represent approximately 555,515 shares of the Company s common stock. The Company chose to add to principal the first and second quarterly interest payments which were due in June and September 2008. These additional principal amounts represent approximately 9,000 and 35,000 shares of the Company s common stock, respectively. At the market value of our common stock on September 30, 2008, or $3.40, the excess of the aggregate fair value that Prides will receive at conversion over debt proceeds is approximately zero. These diluted potential common shares were not included in the diluted loss per share for the three and nine months ended September 30, 2008 as the effect would have been anti-dilutive.

In accordance with Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), EITF Issue No. 01-6, *The Meaning of Indexed to a Company s Own Stock* (EITF 01-6), EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock* (EITF 00-19), the Company determined that the conversion feature is not an embedded derivative that needs to be separated from the Note and accounted for separately as a derivative under SFAS 133 as it is indexed to its own stock within the meaning of EITF 01-6 and is classified as Stockholders Equity in the Company s balance sheet per the provisions of EITF 00-19. Therefore, in accordance with EITF Issue No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF Issue No. 00-27, *Application of Issue 98-5 to Certain Convertible Instruments* (EITF 00-27), this conversion feature is considered a beneficial conversion feature and is being treated as a note discount with a fair value of approximately $1.1 million, which will be amortized to interest expense over the three-year term of the Second Note using the effective interest method. In the event that the Company chooses to pay its additional quarterly interest costs in equity it may result in additional beneficial conversion features which would be treated as note discounts and amortized over the remaining term of the Second Note using the effective interest method. As of September 30, 2008, the Company has amortized approximately $29,000 of the beneficial conversion feature discount.

Additionally, in connection with the Second Note financing, warrants to purchase 0.5 million shares of the Company s common stock at $4.25 per share were issued to Prides. The warrants have a 10-year term and are redeemable at the option of the Company, with thirty days written notice to Prides, upon the occurrence of the following events: (i) the closing sales price per share of the common stock is in excess of 150% of the warrant price ($6.375 per share) for more than thirty consecutive trading days, (ii) the warrants are either registered for resale pursuant to an effective registration statement naming Prides as a selling stockholder thereunder or freely transferable without volume restrictions pursuant to Rule 144(k) promulgated under the Securities Act, and (iii) the Company complied in all material respects with its obligations under the warrant and the common stock was at all times listed on the AMEX, New York Stock Exchange, the Nasdaq National Market, the Nasdaq Capital Market or the OTC Bulletin Board. These warrants are subject to anti-dilution protection in relation to the issuance by the Company of additional shares such as sale, merger, liquidation, dissolution or winding up of the Company (each, a Liquidity Event), or any other transaction that results in a dilution of the Per Share Warrant Price except for those stock transactions that are excluded such as issuance of options, warrants or other rights (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like after May 30, 2008) issued or to be issued after May 30, 2008 to employees, officers or directors of, or consultants or advisors to the Company or any subsidiary, pursuant to stock purchase or stock option or employee benefit plans or other arrangements that are approved by the board of directors of the Company. In conjunction with this transaction, the Company determined in accordance with Accounting Principles Board Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*, that the warrants have a relative fair value of $1.0 million, which is treated as a note discount and amortized over the three-year term of the Note using the effective interest method. As of September 30, 2008, the Company has amortized approximately $29,000 of this discount.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company incurred $0.1 million in issuance costs paid directly to Prides in connection with the Second Note. In accordance with EITF 00-27, these issuance costs are treated as a note discount and are being amortized over the three-year term of the Note using the effective interest method. As of September 30, 2008, the Company has amortized approximately $3,000 of this discount.

As of September 30, 2008, the Company concluded that the carrying value of the Second Note is indicative of its fair value and this was calculated to be $0.6 million as follows (in thousands):

Senior secured note	$ 2,595
Paid in-kind interest	161
Discount related to warrants, net	(978)
Discount related to beneficial conversion feature, net	(1,074)
Discount related to issuance costs, net	(92)
	$ 612

The Company recorded approximately $0.2 million of interest expense, including amortization of the note discounts of less than $0.1 million, related to the Second Note during the nine months ended September 30, 2008. The principal payment of the Second Note in the amount of $2.6 million plus paid in-kind interest of $0.2 million is due upon maturity on June 30, 2011.

The First Note and Second Note (Notes) place certain limitations on the Company s ability to enter into various transactions including, in aggregate, capital leases in excess of $2 million, other forms of indebtedness in excess of $250,000, and total investments in excess of $250,000. Pursuant to the terms of the Notes, the Company granted Prides a first priority security interest in all of the Company s equipment, inventory, accounts receivable, pledged deposit accounts, patents, trademarks, copyrights, trade secrets, certain pledged debt, and certain pledged intellectual property. The Notes are also secured by 10 million unissued shares of the Company s common stock. At September 30, 2008 the Company is in compliance with all the covenants in the Notes.

In the Note and Warrant Purchase Agreement for the Second Note, Prides committed to provide the Company with an additional $2.55 million in Senior Secured Notes, with terms similar to the Second Note and as set forth in the Note and Warrant Purchase Agreement. The Company received the proceeds from these Notes on November 13, 2008.

9. RELATED PARTY TRANSACTIONS

Senior Secured Notes

On August 31, 2007 and May 30, 2008 the Company borrowed $10 million and $2.6 million, respectively, from Prides, the Company s majority shareholder, in the form of Senior Secured Notes and accompanying agreements. See Note 8 for details.

Equity

The Company issued Warrants to purchase approximately 1.19 million shares at $6.00 per share to Prides in connection with the private placement that occurred in connection with the May 2006 acquisition of Nutrio. In connection with the Notes issued in August 2007 and May 2008, as described in Note 8, the Company issued warrants to purchase 1.0 million shares at $5.00 per share and 0.5 million shares at $4.25 per share, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the nine months ended September 30, 2007, the Company granted 44,626 stock options with an exercise price of $3.79 and 22,427 restricted stock awards to Prides as compensation for its two representative directors. There were no such grants in the first or third quarter of 2007 or for the three and nine months ended September 30, 2008. As of September 30, 2008, Prides had 144,626 and zero vested and unvested stock options, respectively, and 25,727 unrestricted shares. These options and restricted stock awards are subject to variable accounting under SFAS 123R as interpreted by EITF 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling Goods or Services* (EITF 96-18). The Company values these stock options and restricted stock awards using the Black-Scholes-Merton pricing model (see assumptions and additional disclosures in Note 7). Common stock is valued using the market price of common stock on the measurement date as defined in EITF 96-18.

10. LOSS PER COMMON SHARE

Basic loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the weighted average number of common and dilutive potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon exercise of stock options and warrants (using the treasury stock method). Potential common shares outstanding of approximately 337,000 and 452,000 have not been included in the computation of diluted loss per share for the three and nine months ended September 30, 2008, respectively, as their effect is anti-dilutive. Potential common shares outstanding of approximately 385,000 and 408,000 have not been included in the computation of diluted loss per share for the corresponding periods in the prior year, respectively, as their effect is anti-dilutive.

11. INCOME TAXES

The Company adopted FIN 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. The adoption of FIN 48 did not have a material effect on the Company s consolidated financial position or results of operations.

The Company recorded less than $0.1 million of income tax expense for each of the three and nine months ended September 30, 2008, and $0.1 million and $0.2 million for the three and nine months ended September 30, 2007, respectively, related to the operations of eDiets Europe.

12. COMPREHENSIVE LOSS

The components of comprehensive loss are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net loss	$ (3,199)	$ (2,495)	$ (11,453)	$ (5,197)
Other comprehensive income (loss):				
Foreign currency translation	192	(28)	30	(212)
Comprehensive loss	$ (3,007)	$ (2,523)	$ (11,423)	$ (5,409)

Accumulated other comprehensive loss as of September 30, 2008 and 2007 consists of foreign currency translation.

13. SEGMENT INFORMATION

FASB Statement No. 131 (SFAS 131), *Disclosures about Segments of an Enterprise and Related Information*, designates the internal reporting that is used by management for making operating decisions and assessing performance as the source of the Company s reportable segments.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company operates in a single market consisting of the sale of services, information and products (ecommerce and meal delivery) related to nutrition, fitness and motivation. The Company has three reportable segments: the U.S. business-to-consumer segment, the U.S. business-to-business segment and the European business segment. Meal delivery revenue and cost of revenue are included in the U.S. business-to-consumer segment.

The Company does not engage in inter-company revenue transfers between segments. The Company s management evaluates performance based primarily on business segment. Accounting policies of the reportable segments are the same as the Company s consolidated accounting policies.

Net revenues and segment loss of the Company s three reportable segments are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net revenues:				
U.S. business-to-consumer	$ 3,695	$ 5,962	$ 16,922	$ 20,286
U.S. business-to-business	935	713	2,573	1,797
Total U.S.	4,630	6,675	19,495	22,083
Europe	123	160	473	746
Consolidated net revenues	$ 4,753	$ 6,835	$ 19,968	$ 22,829
Segment income (loss):				
U.S. business-to-consumer	$ (2,952)	$ (2,678)	$ (10,968)	$ (5,865)
U.S. business-to-business	587	218	1,366	209
Total U.S.	(2,365)	(2,460)	(9,602)	(5,656)
Europe	111	145	398	696
Consolidated loss from operations	$ (2,254)	$ (2,315)	$ (9,204)	$ (4,960)

Identifiable assets and goodwill of the Company s three reportable segments and long-lived assets are as follows (in thousands):

	September 30, 2008	December 31, 2007
Identifiable assets:		
U.S. business-to-consumer	$ 13,316	$ 18,928
U.S. business-to-business	7,970	8,539
Total U.S.	21,286	27,467
Europe	100	224
Total identifiable assets	$ 21,386	$ 27,691

Long-lived assets, net:				
U.S. business-to-consumer	$	4,297	$	3,624
U.S. business-to-business		47		9
Total long-lived assets	$	4,344	$	3,633
Goodwill:				
U.S. business-to-consumer	$	5,191	$	5,191
U.S. business-to-business		6,835		6,835
Total goodwill	$	12,026	$	12,026

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. LEGAL PROCEEDINGS

In the ordinary course of business, the Company and/or its subsidiaries may be parties to legal proceedings and regulatory inquiries, the outcome of which, either singly or in the aggregate, is not expected to have a material adverse effect on the Company s financial condition or results of operations.

15. SUBSEQUENT EVENT

On November 13, 2008, the Company issued a Senior Secured Note in the principal amount of $2.55 million (Subsequent Note) to Prides, a major shareholder with two representatives on the Company s board of directors. On the same date, the Company executed Letter Amendment No. 1 (Amendment) with Prides. The Amendment amended the terms contained in the May 30, 2008 Note and Purchase Agreement between the parties with respect to the date upon which the Company would issue the Subsequent Note to Prides. The Subsequent Note is due on June 30, 2011. The Company will use the proceeds from the sale of the Subsequent Note to fund its business.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this Quarterly Report on Form 10-Q, other than historical information, may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Words such as may , will , expect , intend , anticipate , believe , estimate , plan and similar expressions in this report identify forward-looking statements. The forward-looking statements are based on current views with respect to future events and financial performance. Actual results may differ materially from those projected in the forward-looking statements. The forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things those associated with:

- our ability to meet our financial obligations;
- the relative success of marketing and advertising, specifically with respect to confronting competitors with greater resources and expertise in leveraging the same or similar advertising markets;
- the continued attractiveness of our weight-loss programs;
- competition, including price competition and competition with self-help weight loss and medical programs;
- our ability to obtain and continue certain relationships with corporate partners and suppliers of our meal delivery services;
- adverse results in litigation and regulatory matters, more aggressive enforcement of existing legislation or regulations, a change in the interpretation of existing legislation or regulations, or promulgation of new or enhanced legislation or regulations;
- significant investments in our technology platform, marketing plans, and product development to remain competitive with other online providers of healthy living and weight loss plans, many of which may be found to offer superior and more varied features than our plans and may also be offered for free;
- any delay, disruption, or suspension of our supply of prepared meals from our vendor;
- any increase in the cost of food or energy which would negatively impact our meal delivery business;
- changes in customer preferences, discretionary spending and the availability of consumer credit which may particularly impact the meal delivery business;
- product liability claims or regulatory action from the sale of prepared meals;
- our inability to obtain sufficient and/or acceptable outside financing or funding (when and if required);

- general economic and business conditions; and

- terrorist activities and the prospect of or the actuality of war.

The factors listed in the section entitled Certain Factors Which May Affect Future Results in the section Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K, for the year ended December 31, 2007, as well as any other cautionary language in this report, provide examples of risks, uncertainties and events which may cause our actual results to differ materially from the expectations we described in our forward-looking statements. All forward-looking statements are current only as of the date on which such statements are made. We do not undertake any obligation to release publicly the result of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

OUR BUSINESS

Products and Services

eDiets.com, Inc. (eDiets , the Company or we) leverages the power of technology to bring weight loss solutions to both consumers and businesses. We generate revenue in four primary ways.

- We sell digital weight-loss programs.
- We also offer a nationwide weight loss oriented meal delivery service.
- We derive licensing revenues for the use of our intellectual property and development revenues related to the planning, design and development of private-label nutrition Web sites.
- We also sell advertising throughout our content assets, which are our diet, fitness and healthy lifestyle-oriented Web sites.

Subscription Business

We have been offering digital subscription-based plans in the United States since 1998, when we launched our first diet plan. Our digital diet plans are personalized according to an individual s weight goals and food and cooking preferences and include the related shopping lists and recipes. eDiets offers a variety of over twenty different digital diet plans, some of which we have developed and some of which we have licensed from third parties under exclusive arrangements. We also offer a subscription-based nationwide weight loss oriented meal delivery service.

Subscribers to our digital diet and meal delivery plans are acquired through our own advertising or through co-marketing arrangements with third parties. In addition to a digital diet or meal delivery product, they receive access to support offerings including interactive online information, communities and education as well as telephone and online support. eDiets offers message boards on various topics of interest to our subscribers, online meetings presented by licensed mental health counselors, registered dietitians and certified fitness trainers and the resources of approximately 30 customer service representatives, nutritionists and fitness personnel.

Digital subscription programs ranging from four weeks to 52 weeks are billed in advance in varying increments of time. Substantially all of our digital subscribers purchase programs via credit/debit cards, with renewals billed automatically, until cancellation.

Meal delivery subscribers may purchase a full week or five days of freshly prepared breakfasts, lunches, and dinners, supplemented by snacks that are generally shipped to arrive within two or three days.

License Business

Our eDiets Corporate Services subsidiary is actively engaged in providing private label online nutrition, fitness and wellness programs to companies mainly in the health insurance, pharmaceutical and food industries.

We also recognize royalty revenue as a result of having licensed to Tesco plc (Tesco) the exclusive rights to use eDiets brand and diet plan technology in the UK and Ireland and having licensed to eDiets International GmbH similar rights for certain European and Latin American countries.

Content Business

Our advertising sales revenues are derived from our flagship Web site, www.eDiets.com. The site includes free, regularly updated content developed primarily by our in-house editorial staff. Content is grouped into channels including Diet & Nutrition, Fitness, Mind & Body, Health, Food & Recipes and Success Stories.

Additional advertising revenues are generated through placements in our free opt-in email newsletters and through placements within the subscription sales process.

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CRITICAL ACCOUNTING POLICIES

We have identified the policies outlined below as critical to our business operations and an understanding of our results of operations. The listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management s judgment in their application. The impact and any associated risks related to these policies on our business operations is discussed throughout Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see the Notes to the Consolidated Financial Statements in our 2007 Form 10-K. Note that our preparation of the financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

REVENUE RECOGNITION:

We offer memberships to the proprietary content contained in our Web sites. Revenues from customer subscriptions are paid in advance mainly via credit/debit cards. Subscriptions to the digital plans are paid in advance and cash receipts are deferred and recognized as revenue on a straight-line basis over the period of the digital plan subscription. Beginning in January 2008, we began to offer a guarantee to all customers, under which if a customer did not meet their weight loss goal upon completion of consecutive 6-months of digital subscription and met the guarantee requirements they would receive the next 6-months of digital subscription for free. We recognize digital subscription revenue over the potential term of twelve months of digital subscription or until the subscriber no longer meets the guarantee requirements, whichever comes first.

In accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent* (EITF 99-19), we recognize gross digital subscription revenues associated with licensed diet and fitness plans based on the relevant facts of the related license agreements, while the license fee incurred to the licensor is included in cost of revenues.

Meal delivery revenue is recognized when the earnings process is complete, which is upon transfer of title of the product. This transfer occurs upon shipment from our fulfillment center to the end-customer. Meal delivery revenue includes amounts billed for shipping. In accordance with EITF 99-19, we recognize gross meal delivery revenues based on the relevant fact that we are the primary obligor and have assumed asset risk before the customers place any orders. Beginning in January 2008 we began offering two promotions: a) buy 7 weeks of meal delivery and get the 8th week for free and b) buy a meal delivery program and get a free non-cash gift. For the first promotion and in accordance with EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products)* (EITF 01-09), we recognize the cost of the free offer as cost of revenue proportionally over the term of the meal delivery subscription or until the customer cancels and no longer is entitled to the free offer. For the second promotion and in accordance with EITF 01-09, we recognize meal delivery revenue when the meals are shipped and the cost of the free non-cash gift as cost of sales when the non-cash gift is shipped.

Business-to-business revenue relates to our eDiets Corporate Services subsidiary. eDiets Corporate Services generates three types of business-to-business revenue. Licensing and development revenues are accounted for in accordance with EITF 00-21, *Revenue Arrangements with Multiple Deliverables*. Development revenue relates to the planning, design and development of websites for customers. Both licensing and development revenues are recognized on a straight line basis over the license period once the website is launched. Consulting revenue relates to consulting services provided to customers and revenue is recognized when services and/or deliverables are completed and collection is probable.

Advertising revenue is recognized in the period the advertisement is displayed, provided that no significant Company obligation remains and collection is probable. Our obligations typically include guarantees of a minimum number of impressions or times that visitors to our Web site view an advertisement. Amounts received or billed for which impressions have not yet been delivered are reflected as deferred revenue. Opt-in email revenue is derived from the sale of email addresses of visitors to our Web sites who have authorized us to allow third party solicitations. Revenues from the sale of email addresses are recognized when no significant Company obligation remains and collection is probable.

Ecommerce revenue is currently derived from the sale of our various health and fitness store products, including vitamin supplements, to consumers. We offer an unconditional 30-day guarantee on all of our products. In accordance with Statement of Financial Accounting Standards No. 48, *Revenue Recognition When Right of Return Exists* (SFAS 48), we recognize revenue on those products only when the guarantee period lapses.

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Royalty revenue is derived from the exclusive technology licensing agreement related to our operations in the United Kingdom and Ireland and is being recognized on a straight-line basis, as well as an ongoing royalty agreement on future subscriptions and advertising revenue derived from the ownership transfer of the German, Spanish and Portuguese Web sites.

Our most significant accounting estimate is our reserve for refunds. Since all digital plan subscriber payments are deferred upon receipt, at the end of each month we reclassify a portion of our deferred revenue to reserve for refunds. Based on historical experience, approximately 1% of digital plan subscriber sales will result in a refund issued in the subsequent month after sale. All other refunds issued relate to current month digital plan subscriber sales. Because the revenue has not been recognized, refunds do not result in a reversal of digital plan subscription revenue. Instead, refunds result in a decrease to the amounts maintained in deferred revenue. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate the reserve for refunds. However, if actual results are not consistent with our estimates or assumptions stated above, we may be exposed to income or losses that could be material to our consolidated financial statements.

RESULTS OF OPERATIONS

The following table sets forth our results of operations expressed as a percentage of total revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenue	100%	100%	100%	100%
Cost of revenue	45	28	54	22
Technology and development	23	13	15	12
Sales, marketing and support	46	62	49	60
General and administrative	30	27	25	23
Amortization of intangible assets	4	4	4	4
Interest income	*	1	*	1
Interest expense	20	3	12	1
Income tax provision	*	1	*	1
Net loss	(67)	(37)	(57)	(23)

* Less than 1%

COMPARISON OF THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007

Revenue: Total revenue for the three and nine months ended September 30, 2008 was $4.8 million and $20.0 million, respectively, a decrease of 30% and 13% versus the $6.8 million and $22.8 million recorded in the comparable prior year periods.

Revenue by type is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Digital	$ 2,079	$ 4,369	$ 7,815	$ 15,625
Meal delivery	1,417	1,035	8,239	2,427
Business-to-business	935	713	2,573	1,797
Advertising	189	521	838	2,136
Ecommerce	10	37	29	103
Royalties	123	160	474	741
	$ 4,753	$ 6,835	$ 19,968	$ 22,829

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Digital plans revenue was $2.1 million and $7.8 million in the three and nine months ended September 30, 2008, respectively, as compared to $4.4 million and $15.6 million in the corresponding prior year periods. Digital plans revenue is driven by the following two factors: the average number of digital plans subscribers and the average weekly fee paid by digital plan subscribers. At September 30, 2008, the average subscriber base was approximately 39% lower than at September 30, 2007 and the average weekly fees for both the three and nine months ended September 30, 2008 were approximately 1% and 2% lower than the corresponding prior year periods, respectively. Fewer digital plan subscribers were added for the first nine months of 2008 compared to 2007 as the cost to acquire a digital plan subscriber continues to increase significantly, thereby causing us to spend less in advertising in the three and nine month periods ended September 30, 2008 as compared to the prior year periods.

Meal delivery had revenues of $1.4 million and $8.2 million, including shipping revenue, for the three and nine months ended September 30, 2008, respectively, as compared to $1.0 million and $2.4 million for the same periods in the prior year. Increase in meal delivery revenue relates to higher marketing efforts in the current year.

Business-to-business revenues, which are primarily license related revenues, were approximately $1.0 million and $2.6 million for the three and nine months ended September 30, 2008, respectively, as compared to $0.7 million and $1.8 million for the three and nine months ended September 30, 2007, respectively. The increase in revenue is directly related to the increase in number of customers and expansion of existing customers that eDiets Corporate Services manages in the current year.

Advertising revenue from our website and our newsletter decreased by 64% and 61% for the three and nine months ended September 30, 2008 from the comparable prior year periods, due to fewer site visitors who observe third-party banner impressions in 2008. The number of visitors to our websites has declined in 2008. Due to rising online advertising rates as well as our focus on targeting more of our advertising investments to meal delivery, we have reduced our spending and shifted much of our remaining advertising budget to offline campaigns versus online advertising. This has generated fewer visitors to our websites and may drive down our overall customer acquisitions going forward. An additional factor that contributed to the decline in visitors to our websites in the second quarter of 2008 was the transition to our new technology platform. During the transition we did not effectively transfer our website content which in turn had a negative impact on visitors obtained through traffic generated from natural search.

In the future we expect that revenue streams from revenue sources other than digital plan subscriptions will continue to become a larger share of total revenue as we diversify from a subscription-based model to a more integrated business model that better captures cross-selling opportunities and leverages our existing customer relationships.

Cost of Revenue: Total cost of revenue for the three and nine months ended September 30, 2008 was $2.2 million and $10.7 million, respectively, as compared to $1.9 million and $5.1 million for the corresponding prior year periods.

Cost of revenue by type is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Digital	$ 640	$ 787	$ 1,838	$ 2,443
Meal delivery	1,407	944	8,530	2,233
Other	108	155	317	411
Total cost of revenue	$ 2,155	$ 1,886	$ 10,685	$ 5,087

Cost of digital plans revenue consists primarily of credit card fees and revenue sharing or royalty costs related to the exclusive license agreements with third party nutritional and fitness companies. Other costs include Internet access fees, compensation for nutritional and consulting professionals and depreciation. Cost of digital plans revenue decreased to $0.6 million and $1.8 million for the three and nine months ended September 30, 2008, respectively, as compared to $0.8 million and $2.4 million in the corresponding prior year periods and is primarily related to the decrease in digital plans subscription revenue as mentioned above.

Cost of meal delivery revenue consists primarily of credit card fees, product, fulfillment and shipping costs. Cost of meal delivery revenue increased to $1.4 million and $8.5 million for the three and nine months ended September 30, 2008, respectively, from $0.9 million and $2.2 million in the corresponding prior year periods and is directly related to the increase in meal delivery revenue as mentioned above as well as product waste incurred in the current year.

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Cost of other revenue consists primarily of Internet access and serving fees, product and fulfillment cost for ecommerce sales and credit card fees. Cost of other revenue decreased to $0.1 million and $0.3 million for the three and nine months ended September 30, 2008, respectively, as compared to $0.2 million and $0.4 million for the three and nine months ended September 30, 2007, respectively and is primarily related to the decrease in other revenue.

Total gross margin as a percent of revenue declined to 55% and 46% for the three and nine months ended September 30, 2008, respectively, from 72% and 78% from the respective prior year periods as negative margin meal delivery sales became a larger portion of total sales. We anticipate our total gross margin will improve in the future as our efforts to improve meal delivery margin are realized.

Technology and Development: Technology and development expenses consist of payroll and related expenses we incur related to testing, maintaining and modifying our Web sites, telecommunication systems and infrastructure and other internal-use software systems. Technology and development expenses also include depreciation of the computer hardware and capitalized software we use to run our Web site and store our data. These expenses were approximately $1.1 million and $3.1 million for the three and nine months ended September 30, 2008, respectively, as compared to $0.9 million and $2.8 million for the three and nine months ended September 30, 2007, respectively.

Sales, Marketing and Support Expense: Sales, marketing and support expenses consist primarily of Internet advertising expenses and compensation for employees in those departments related to promoting the U.S. business-to-consumer segment (meal delivery costs are included in this segment). These expenses were approximately $2.2 million and $9.7 million for the three and nine months ended September 30, 2008, respectively, as compared to $4.2 million and $13.8 million in the corresponding prior year periods and represent mainly advertising media expense and compensation expense. In total, advertising media expense which is for the U.S. business-to-consumer segment was $0.7 million and $4.9 million for the three and nine months ended September 30, 2008, respectively. For the three and nine months ended September 30, 2007 advertising media expense was $2.8 million and $9.2 million, respectively.

General and Administrative Expenses: General and administrative expenses consist primarily of salaries, overhead and related costs for general corporate functions, including professional fees. General and administrative expenses were $1.4 million and $5.0 million for the three and nine months ended September 30, 2008, respectively, as compared to $1.9 million and $5.2 million in the corresponding prior year periods.

Amortization of Intangible Assets: Amortization expense was $0.2 million and $0.7 million for the three and nine months ended September 30, 2008, respectively, as compared to $0.3 million and $0.9 million in the corresponding prior year periods.

Interest Income: Interest income was less than $0.1 million for the each of the three months ended September 30, 2008 and 2007 and $0.1 million and $0.2 million for the nine months ended September 30, 2008 and 2007. The current year interest income decrease is directly related to the decrease in cash balances in the current year.

Interest Expense: Interest expense was $0.9 million and $2.3 million for the three and nine months ended September 30, 2008, respectively, as compared to $0.2 million for the three and nine months ended September 30, 2007. The increase in interest expense relates to interest costs and the amortization of discounts and issuance costs recorded in connection with the senior secured notes issued in August 2007 and May 2008.

Income Tax Provision: Income tax provision of less than $0.1 million for the each of the three months ended September 30, 2008 and 2007 and less than $0.1 million and $0.2 million for the nine months ended September 30, 2008 and 2007, respectively, primarily relates to the operations of eDiets Europe.

Net Loss: As a result of the factors discussed above, we recorded a net loss of $3.2 million and $11.5 million for the three and nine months ended September 30, 2008, respectively, as compared to a net loss of $2.5 million and $5.2 million for the comparable prior year periods.

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LIQUIDITY AND CAPITAL RESOURCES

The Company s principal use of cash in its operating activities for the nine months ended September 30, 2008 is for online and offline advertising promoting digital diet and meal delivery programs to potential subscribers and to support our business model as we diversify from subscription-based to a more integrated model that better captures cross-selling opportunities and leverages our existing customer relationships. Advertising expense in the first half of the year usually exceeds advertising in the second half of the year due to seasonality in the weight loss business. As a result we have historically experienced proportionally lower or negative cash flows from operating activities in the first six months of each year. We expect that trend to continue going forward. The amount of advertising and its effectiveness is a significant driver of our operations. Our advertising commitments are typically short term in nature with most of it purchased on the spot market. This trend is expected to continue going forward.

At September 30, 2008, we had a net working capital deficit of $1.7 million, compared to net working capital of $3.1 million at December 31, 2007. Cash and cash equivalents at September 30, 2008 were $1.5 million, a decrease of $5.6 million from the balance of $7.1 million at December 31, 2007. In 2007, our principal source of liquidity was borrowing $10 million, in the third quarter of 2007, with a three-year term from our majority shareholder, to invest in opportunities to grow the business, including advertising our meal delivery program and upgrading our technology platform. In the second quarter of 2008 we borrowed an additional $2.6 million from the same shareholder, with a three year term, to be used for general corporate purposes. We expect that cash required for operations and capital expenditures for the remainder of fiscal year 2008 will be in the range of $1.3 million to $1.8 million.

In the third quarter of 2007 we also entered into a capital lease obligation of approximately $0.5 million to finance a portion of our technology platform upgrade. As of September 30, 2008, such capital lease obligation has been paid in full.

The Company s condensed consolidated financial statements for the three and nine months ended September 30, 2008 have been prepared on a going concern basis, which contemplates the realization of assets and liabilities and commitments in the normal course of business.

Prides Capital Partners LLC (Prides), our majority shareholder, represented its intention to provide the necessary level of financial support to the Company to enable us to pay our debts as they become due through December 31, 2008. Prides and its affiliates have the financial resources to fulfill this commitment. Management believes that cash and cash equivalents as of September 30, 2008 of $1.5 million together with the additional financial support from Prides are sufficient to fund operations for the remainder of the year. Pursuant to the Note and Warrant Purchase Agreement dated May 30, 2008, Prides provided the Company with an additional $2.55 million in Senior Secured Notes on November 13, 2008, with terms similar to the Second Note as set forth in the Note and Warrant Purchase Agreement. To the extent we require additional funds to support our operations or the expansion of our business we may seek to undertake additional equity financing. There can be no assurance that additional financing, if required, will be available to us in amounts or on terms acceptable to us, or at all.

We have never declared a dividend or paid a cash dividend. We currently intend to retain any earnings for use in the business and do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Cash Flows from Operating Activities: For the nine months ended September 30, 2008, we used $6.3 million of cash in operating activities. The negative cash flow related to our net loss of $11.5 million, adjusted for, among other things, certain non-cash items including $1.1 million of depreciation, $0.7 million of amortization of intangibles, $0.8 million of amortization of the senior secured notes related party discount and expenses, $0.1 million of provision for bad debt, $1.3 million of stock-based compensation, and an aggregate increase in cash flows from our operating assets and liabilities of $1.1 million.

For the nine months ended September 30, 2007, we used $2.8 million of cash in operating activities. The negative cash flow related to our net loss of $5.2 million, adjusted for, among other things, certain non-cash items including $0.8 million of depreciation, $0.9 million of amortization of intangibles, $1.2 million of stock based compensation and $0.2 million loss on disposal of fixed assets, offset by an aggregate decrease in cash flows from our operating assets and liabilities of $0.7 million.

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Cash Flows from Investing Activities: For the nine months ended September 30, 2008 we used $1.5 million of cash in investing activities. The cash usage was due to $1.8 million of capital expenditures, primarily computer equipment and software development costs, offset by a decrease in restricted cash of $0.3 million from the release of a collateral account related to the capital lease obligation that we had for our technology platform upgrade which we have paid in full.

For the nine months ended September 30, 2007 we used $2.9 million of cash in investing activities. The cash usage was due to a performance-based payment of $1.25 million to Nutrio shareholders, an increase in restricted cash of $0.5 million to fund a collateral account related to a capital lease obligation for our technology platform upgrade and $1.2 million of capital expenditures, primarily computer equipment, software development costs and leasehold improvements.

Cash Flows from Financing Activities: Our financing activities provided for $2.2 million of cash for the nine months ended September 30, 2008. This was primarily attributable to $2.5 million in net proceeds from the related party senior secured note issued in May 2008 and $0.3 million in proceeds from the exercise of stock options, offset by repayment of capital lease obligations of $0.6 million.

For the nine months ended September 30, 2007 our financing activities provided for $9.9 million of cash. The cash provided for the nine months ended September 30, 2007 was primarily attributable to $9.8 million in net proceeds from the related party senior secured note and $0.4 million in proceeds from the exercise of stock options, offset by the repayment of capital lease obligations of $0.3 million.

Contractual Obligations: In the second quarter of 2008 we borrowed $2.6 million from Prides in the form of a Senior Secured Note (Second Note). The Second Note calls for quarterly interest payments of 18% per annum. The interest can be paid in cash provided that Prides notifies us not less than 15 days prior to such payment date and if no notice is given such accrued interest will be capitalized and added to the principal amount of the Second Note. The Second Note has optional and mandatory prepayment clauses. The proceeds from the Note will be used for general corporate purposes. The maturity date of the Second Note is June 30, 2011. The Second Note has a conversion feature allowing Prides to exercise an option to require us to prepay the Note at maturity through the issuance of equity at $4.67 per share.

At September 30, 2008 we are in compliance with all the covenants of our Notes.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, indicated that there were no changes in our internal controls, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, which occurred during the three and nine months ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except for the implementation of measures described below under Remediation of Material Weaknesses.

Remediation of Material Weaknesses

The Company has implemented, or plans to implement, certain measures to remediate the material weakness related to the Company s complex, non-routine, and newly occurring transactions identified in the Company s 2007 Annual Report on Form 10-K. As of the filing of this Quarterly Report on Form 10-Q, the Company has implemented the following measures:

- Hired a new Chief Financial Officer; however, this remediation will require additional time for training and building institutional knowledge;

- Complex, non-routine, and newly occurring transactions are identified by the Chief Financial Officer and reported to the accounting department;

- The accounting department evaluates such transactions and documents their accounting treatment for the current period.

The Company anticipates that these remediation actions represent ongoing improvement measures as further action is required to complete our remediation including the development and implementation of enhanced processes. Our management will monitor closely the implementation of our remediation plan. Furthermore, while the Company has taken steps to remediate the material weaknesses, these steps may not be adequate to fully remediate those weaknesses, and additional measures may be required. The effectiveness of the steps we have taken to date and the steps we are still in the process of completing is subject to continued management review, as well as Audit Committee oversight, and we may make additional changes to our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

Item 2. None

Item 3. None

Item 4. None

Item 5. Other Information

On November 13, 2008, the Company issued a Senior Secured Note in the principal amount of $2.55 million (Subsequent Note) to Prides, a major shareholder with two representatives on the Company s board of directors. On the same date, the Company executed Letter Amendment No. 1 (Amendment) with Prides. The Amendment amended the terms contained in the May 30, 2008 Note and Purchase Agreement between the parties with respect to the date upon which the Company would issue the Subsequent Note to Prides. The Subsequent Note is due on June 30, 2011. The Company will use the proceeds from the sale of the Subsequent Note to fund its business.

The foregoing description of the Subsequent Note and the Amendment (the Agreements) does not purport to be complete and is qualified in its entirety by reference to the Agreements, attached hereto as Exhibits 10.1 and 10.2. The Agreements are provided to give investors information regarding their respective terms. They are not provided to give investors factual information about the Company or any other parties thereto. In addition, the representations, warranties and covenants contained in the Agreements were made only for purposes of those Agreements and as of specific dates, were solely for the benefit of the parties to those Agreements, and may be subject to limitations agreed by the contracting parties, including being qualified by disclosures exchanged between the parties in connection with the execution of the Agreements. The representations and warranties may have been made for the purposes of allocating contractual risk between the parties to the Agreements instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Investors are not third-party beneficiaries under these Agreements and should not view the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or conditions of the Company.

Item 6. Exhibits

The following exhibits are included herein:

10.1	Note and Warrant Purchase Agreement dated November 13, 2008 by and between eDiets.com, Inc. and Prides Capital Fund I, L.P.
10.2	Letter Amendment No.1 dated November 13, 2008 by and between eDiets.com, Inc. and Prides Capital Fund I, L.P.
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) (17 CFR 240.13a-14(a)).
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) (17 CFR 240.13a-14(a)).
32.1	Section 1350 Certification of President and Chief Executive Officer of the Company
32.2	Section 1350 Certification of Chief Financial Officer of the Company

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SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

eDiets.com, Inc.

/s/ THOMAS HOYER
Thomas Hoyer
Chief Financial Officer
(Principal Financial Officer)

DATE: November 14, 2008

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Exhibit Index

Exhibit No.	Description
10.1	Note and Warrant Purchase Agreement dated November 13, 2008 by and between eDiets.com, Inc. and Prides Capital Fund I, L.P.
10.2	Letter Amendment No.1 dated November 13, 2008 by and between eDiets.com, Inc. and Prides Capital Fund I, L.P.
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) (17 CFR 240.13a-14(a)).
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) (17 CFR 240.13a-14(a)).
32.1	Section 1350 Certification of President and Chief Executive Officer of the Company
32.2	Section 1350 Certification of Chief Financial Officer of the Company