EDIETS COM INC
Form 10-Q
November 14, 2007
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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, 2007

Commission File Number 0-30559

eDiets.com, Inc.

(Exact name of issuer as specified in its charter)

Delaware	**56-0952883**
(State or other jurisdiction of incorporation or organization)	**(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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer 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 November 1, 2007:

Common Stock, $.001 par value per share	24,921,361 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, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,147	$ 6,015
Accounts receivable, net	1,593	1,699
Prepaid advertising costs	95	388
Prepaid meal delivery	180	84
Prepaid expenses and other current assets	422	302
Total current assets	12,437	8,488
Restricted cash	1,044	544
Property and office equipment, net	2,676	1,806
Intangibles, net	2,006	2,869
Goodwill	13,745	13,616
Other assets	248	214
Assets of discontinued operations		7
Total assets	$ 32,156	$ 27,544
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,349	$ 2,409
Accrued liabilities	2,825	4,056
Current portion of capital lease obligations	470	213
Deferred revenue	1,837	2,449
Total current liabilities	7,481	9,127
Capital lease obligations, net of current portion	246	142
Deferred revenue	1,973	1,952
Deferred tax liability	68	67
Senior secured note, net related party	6,066	
Liabilities of discontinued operations		60
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Common stock	25	25
Additional paid-in capital	40,413	34,878

Accumulated other comprehensive (loss) income	(123)	89
Accumulated deficit	(23,993)	(18,796)
Total stockholders' equity	16,322	16,196
Total liabilities and stockholders equity	$ 32,156	$ 27,544

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, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Continuing Operations:				
REVENUE	$ 6,835	$ 12,179	$ 22,829	$ 39,268
COSTS AND EXPENSES:				
Cost of revenue	1,886	2,323	5,087	7,680
Technology and development	883	873	2,774	2,226
Sales, marketing and support	4,218	5,909	13,787	25,881
General and administrative	1,860	2,268	5,233	6,698
Amortization of intangible assets	303	302	908	459
Total costs and expenses	9,150	11,675	27,789	42,944
(Loss) income from operations	(2,315)	504	(4,960)	(3,676)
Other (expense) income, net	(125)	12	(40)	150
Income tax provision	(55)	(9)	(197)	(54)
(Loss) income from continuing operations	(2,495)	507	(5,197)	(3,580)
Discontinued Operations:				
Loss from operations, net of tax		(82)		(352)
Gain on disposal, net of tax		40		40
Loss from discontinued operations, net of tax		(42)		(312)
Net (loss) income	$ (2,495)	$ 465	$ (5,197)	$ (3,892)
Basic (loss) earnings per common share:				
(Loss) income from continuing operations	$ (0.10)	$ 0.02	$ (0.21)	$ (0.16)
Loss from discontinued operations		(0.00)		(0.01)
Net (loss) income	$ (0.10)	$ 0.02	$ (0.21)	$ (0.17)
Diluted (loss) earnings per common share:				
(Loss) income from continuing operations	$ (0.10)	$ 0.02	$ (0.21)	$ (0.16)
Loss from discontinued operations		(0.00)		(0.01)
Net (loss) income	$ (0.10)	$ 0.02	$ (0.21)	$ (0.17)
Weighted average common and common equivalent shares outstanding:				
Basic	24,880	24,219	24,765	23,004
Diluted	24,880	24,739	24,765	23,004

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, 2007	Nine Months Ended September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5,197)	$ (3,892)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	759	707
Amortization of intangibles	908	459
Provision for bad debt	17	210
Stock-based compensation	1,180	881
Deferred tax benefit	(4)	(8)
Loss on disposal of fixed assets	161	13
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	118	16
Prepaid expenses and other assets	96	(612)
Accounts payable and accrued liabilities	(109)	(608)
Deferred revenue	(776)	(215)
Net cash used in operating activities	(2,847)	(3,049)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Nutrio, net of cash acquired	(1,250)	(8,932)
Changes in restricted cash	(500)	(544)
Purchases of property and office equipment	(1,162)	(1,037)
Net cash used in investing activities	(2,912)	(10,513)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock registration costs		(1,025)
Proceeds from exercise of stock options	381	1,824
Proceeds from issuance of stock		10,026
Proceeds from senior secured notes, net related party	9,800	
Repayment of capital lease obligations	(267)	(210)
Net cash provided by financing activities	9,914	10,615
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Operating Activities		
Net loss		312
Gain on disposal of intangibles and fixed assets, net		(40)
Deferred tax benefit		9
Prepaid expenses and other assets		(11)
Accounts payable and accrued liabilities		(744)
Net cash used in operating activities		(474)
Net cash used in investing activities		

Net cash provided by financing activities		
Net cash decrease from discontinued operations		(474)
Effect of exchange rate changes on cash and cash equivalents	(23)	78
NET DECREASE IN CASH AND CASH EQUIVALENTS	4,132	(3,343)
Cash and cash equivalents, beginning of period	6,015	8,612
Cash and cash equivalents, end of period	$ 10,147	$ 5,269
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 18	$ 45
Cash paid for income taxes	$ 32	$ 24
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under capital leases	$ 628	$ 166

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, 2007

(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 individual 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 nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006.

Certain prior year information related to discontinued operations has been reclassified to conform to the current year presentation.

The Company s condensed consolidated financial statements for the three and nine months ended September 30, 2007 have been prepared on a going concern basis, which contemplates the realization of assets and liabilities and commitments in the normal course of business.

In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-lived Assets (SFAS 144), the Company has accounted for the sale of its German, Spanish and Portuguese Web sites in the third quarter of 2006 as a discontinued operation. SFAS 144 applies to long-lived assets to be held and used or to be disposed of, including assets under capital leases of lessees, assets subject to operating leases of lessors and prepaid assets. The balance sheet data, results of operations and cash flows of these Web sites have been reclassified and presented as discontinued operations for all periods presented. The transaction is further discussed in Note 11-Discontinued Operations.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123R, *Share-Based Payment*, and related interpretations (SFAS 123R) using the modified-prospective transition method. Under that method, compensation cost recognized in 2006 includes (a) compensation cost for all share-based payments granted prior to, but not yet vested as of, December 31, 2005 based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Compensation is being recognized on a straight-line basis over the requisite service period for the entire option award in accordance with the provisions of SFAS 123R. Compensation is being recognized on an accelerated basis over the service period for awards subject to graded vesting provisions.

On July 13, 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 applies to all tax positions within the scope of FASB Statement 109, applies a more likely than not threshold for tax benefit recognition, identifies a defined methodology for measuring benefits and increases the disclosure requirements for companies. The Interpretation is mandatory for years beginning after December 15, 2006; accordingly, the Company adopted FIN 48 on January 1, 2007. The adoption of FIN 48 did not have a material effect on the Company s consolidated financial position or results of operations. See Note 8 Income Taxes for further discussion.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 will be required to adopt SFAS 157 on January 1, 2008. The Company is currently in the process of evaluating the effects of this new accounting standard; however, the Company does not anticipate that SFAS 157 will have a material impact on the Company s financial statements.

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 No. 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 No. 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 will be required to adopt SFAS No. 159 on January 1, 2008. We do not expect the adoption of SFAS No. 159 to have a material impact on our results of operations or financial position.

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.

3. EARNINGS PER COMMON SHARE

Basic earnings per common share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are 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 385,222, 407,561 and 784,369 have not been included in the computation of diluted loss per share for the three and nine months ended September 30, 2007 and for the nine months ended September 30, 2006, respectively, as their effect is anti-dilutive.

4. ACQUISITION OF NUTRIO.COM, INC.

On May 18, 2006, the Company acquired Nutrio.com, Inc. (Nutrio), a leading provider of interactive private-label nutrition, fitness and wellness programs (the Merger). The consideration paid to stockholders and optionholders of Nutrio was $8.5 million in cash. An additional performance-based earn out payment of up to $2.5 million could be paid depending on Nutrio s financial performance during calendar year 2006 and 2007. In March 2007, the Company paid $1.25 million related to the 2006 earn out and accordingly this payment was included in accrued liabilities and goodwill in the accompanying Consolidated Balance Sheet as of December 31, 2006. The remaining performance-based earn out of up to $1.25 million will be based on Nutrio s financial performance during calendar year 2007. The primary reason for the acquisition of Nutrio was to be able to accelerate revenue growth and cash flows by expanding the Company s operations with a unique position of leadership serving both the business-to-consumer and the business-to-business diet and fitness marketplace. As a result of this transaction, Nutrio became a wholly-owned subsidiary of the Company. In order to fund the Nutrio acquisition, in 2006 the Company completed a private placement of 1.98 million shares of common stock at a price of $5.05 per share with Prides Capital Fund I, L.P. (Prides Capital). Warrants to purchase approximately 1.19 million shares at $6.00 per share were also issued to Prides Capital. The warrants have a five year expiration date, are exercisable beginning six months after issuance and provide for a cashless exercise under certain conditions with respect to up to 25% of the shares.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The acquisition was accounted for under the purchase method of accounting in accordance with SFAS 141, *Business Combinations*. The results of operations of Nutrio have been included in the Company s financial statements for periods subsequent to May 18, 2006. The Company allocated the cost of the acquisition to the assets acquired and the liabilities assumed based on their estimated fair values. The excess of the cost over the fair value of net assets acquired of approximately $5.6 million has been reflected as goodwill. This amount could increase by up to $1.25 million at December 31, 2007 if Nutrio s remaining performance-based earn out, which is based on Nutrio s financial performance during 2007, is achieved.

A summary of the purchase price for the acquisition, including $1.25 million related to the 2006 earn out, is as follows (in thousands):

Cash	$ 9,750
Liabilities assumed	(172)
Direct acquisition costs	604
Total purchase price	$ 10,182

The purchase price was allocated as follows (in thousands):

Assets acquired (including cash of $132)	$ 431
Intangibles	3,088
Liabilities assumed	(172)
Deferred tax liability	(1,158)
Reduction of eDiets valuation allowance	1,158
Goodwill	6,835
Total	$ 10,182

Intangibles acquired consist of the following (in thousands):

Customer relationships	$ 1,990
Technology	500
Non-compete agreements	350
Tradename	170
Web site content	78
	$ 3,088

5. INTANGIBLES AND GOODWILL

Intangible assets related to the 2006 acquisition of Nutrio (see Note 4) and 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. Intangible assets related to the acquisition of eDiets Europe Ltd (eDiets Europe) in July 2004 are being amortized using the straight-line method over a period of 15 years. The Company reviews each intangible asset type and goodwill on an annual basis, or more frequently if events and circumstances warrant, to determine if any impairment exist. See

Note 14 Subsequent Events for further discussion.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. REVENUE RECOGNITION

The Company offers memberships to the proprietary content contained in its Web sites. Revenues from customer subscriptions represent the majority of the Company s business and are paid in advance mainly via credit cards. Subscriptions to the Company s nutrition, fitness, support and recipe plans are paid in advance and cash receipts are deferred and recognized as revenue on a straight-line basis over the period of the subscription.

In accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, the Company recognizes gross 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.

The Company collects customer subscription amounts in advance and maintains a reserve for refunds related to cancelable plans. Under cancelable plans, customers are entitled to cancel their memberships after an initial length of stay and receive a refund of only the unused portion of the membership.

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 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 the Company s Web sites who have authorized the Company to allow third party solicitations. Revenues from the collection of email addresses are recognized when no significant Company obligation remains and collection is probable.

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.

Business-to-business revenue relates to our Nutrio subsidiary (aka eDiets Corporate Services). It 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 Web sites for its customers. Both licensing and development revenues are recognized on a straight line basis over the license period once the Web site 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.

Ecommerce revenue is currently derived from the sale of motivational audio tapes or compact disks, journals, pedometers, starter kits and other bundled products to consumers. Revenues from the sales of those products are recognized when the product is shipped.

Commission revenue is derived from third party vendors on sales of products and services advertised on the Company s Web sites. Commission revenue is recognized when the third party vendor ships the product and collection is probable.

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 Web sites.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Revenue by type is as follows (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Subscription	$ 4,369	$ 9,481	$ 15,625	$ 30,818
Meal delivery	1,035	666	2,427	2,584
Business-to-business	713	704	1,797	1,004
Advertising	490	932	1,978	2,957
Royalties	160	249	741	725
Commissions	31	65	158	612
Ecommerce	37	82	103	493
Other revenue		75		75
	$ 6,835	$ 12,179	$ 22,829	$ 39,268

7. STOCK-BASED COMPENSATION

In November 2004, the Company adopted the eDiets.com, Inc. 2004 Equity Incentive Plan (the Incentive Plan). 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 1,500,000 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, 2007, there were 341,314 shares of restricted stock and 733,047 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, 2007, 1,020,630 options are outstanding under the Plan.

The Company grants stock options and restricted stock awards to its employees, officers and directors. 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:

Expected Term: The expected term represents the period over which the share-based awards are expected to be outstanding for employees and directors. The Company uses 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. For directors, effective January 1, 2007, the Company uses the historical exercise experience in determining the expected term.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

During the three months ended September 30, 2007 and 2006, the Company recognized stock-based compensation expense under SFAS 123R (related to stock options and restricted stock awards) of $0.5 million and $0.2 million, respectively. During each of the nine months ended September 30, 2007 and 2006, the Company recognized stock-based compensation expense under SFAS 123R (related to stock options and restricted stock awards) of $1.2 million and $0.9 million, respectively.

A summary of option activity under the Company s stock plans as of September 30, 2007 and the changes during the first nine months of 2007 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, 2006	1,355	$ 3.54	4.11	
Granted	758	3.78		
Exercised	(196)	1.98		
Forfeited	(16)	5.12		
Expired	(147)	3.89		
Outstanding at September 30, 2007	1,754	$ 3.77	4.38	$ 797
Vested or expected to vest at September 30, 2007	1,544	$ 3.77	4.37	$ 732
Exercisable at September 30, 2007	932	$ 3.74	4.31	$ 554

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cash received from stock option exercises were $0.1 million and $0.4 million for the three and nine months ended September 30, 2007, respectively.

As of September 30, 2007, there was $0.9 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 2.1 years.

A summary of the restricted stock awards under the Company s Incentive Plan as of September 30, 2007 and the changes during the first nine months of 2007 are presented below (shares in thousands):

	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested at December 31, 2006	135	$ 4.49
Granted	262	3.79
Vested	(51)	4.15
Forfeited	(5)	4.49
Non-vested at September 30, 2007	341	$ 3.95

As of September 30, 2007, there was $0.6 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 2.2 years.

8. INCOME TAXES

The Company adopted 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 $0.1 million and $0.2 million of income tax expense for the three and nine months ended September 30, 2007, respectively, and $9,000 and $0.1 million of income tax expense for the corresponding periods in the prior year, respectively.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net (loss) income	$ (2,495)	$ 465	$ (5,197)	$ (3,892)
Other comprehensive income (loss):				
Foreign currency translation	(28)	(3)	(212)	65
Comprehensive loss	$ (2,523)	$ 462	$ (5,409)	$ (3,827)

Accumulated other comprehensive income as of September 30, 2007 and December 31, 2006 consists of foreign currency translation.

10. 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.

The Company operates in a single market consisting of the sale of services, information and products 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.

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 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, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net revenues:				
U.S. business-to-consumer	$ 5,962	$ 11,235	$ 20,286	$ 37,548
U.S. business-to-business	713	704	1,797	1,004
Total U.S.	6,675	11,939	22,083	38,552
Europe	160	240	746	716
Consolidated net revenues	$ 6,835	$ 12,179	$ 22,829	$ 39,268
Segment (loss) income:				
U.S. business-to-consumer	$ (2,678)	$ 234	$ (5,865)	$ (4,428)
U.S. business-to-business	218	40	209	65

Total U.S.	(2,460)	274	(5,656)	(4,363)
Europe	145	230	696	687
Consolidated (loss) income from operations	$ (2,315)	$ 504	$ (4,960)	$ (3,676)

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	September 30, 2007	December 31, 2006
Identifiable assets:		
U.S. business-to-consumer	$ 20,614	$ 13,418
U.S. business-to-business	9,100	10,407
Total U.S.	29,714	23,825
Europe	2,442	3,712
Identifiable assets from continuing operations	32,156	27,537
Identifiable assets from discontinued operations		7
Total identifiable assets	$ 32,156	$ 27,544
Long-lived assets, net:		
U.S. business-to-consumer	$ 2,665	$ 1,800
U.S. business-to-business	11	6
Total long-lived assets	$ 2,676	$ 1,806
Goodwill:		
U.S. business-to-consumer	$ 5,191	$ 5,191
U.S. business-to-business	6,835	6,835
Total U.S.	12,026	12,026
Europe	1,719	1,590
Total goodwill	$ 13,745	$ 13,616

11. DISCONTINUED OPERATIONS

On September 1, 2006, the Company transferred the ownership of its German, Spanish and Portuguese websites to a third party in exchange for an ongoing royalty on future subscriptions and advertising revenues. These websites were unprofitable for several periods prior to their transfer. The Company exited these markets due to the limited potential to improve the profitability of the websites their distance from the Company s operational center, and the differences in their market and consumer dynamics compared with the Company s primary market in the U.S.

In accordance with SFAS 144, the assets held for sale, cash flows, results of operations and gain on disposal of the three websites are segregated and reported as discontinued operations for all periods presented in this report. As of September 30, 2007 there were no remaining assets that were held for sale. Operating results for the websites are included in the Condensed Consolidated Statements of Operations in net loss from discontinued operations for all periods presented and are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues	$	$ 203	$	$ 773
Loss from operations, net of tax	$	$ (82)	$	$ (352)
Gain on disposal, net of tax	$	$ 40	$	$ 40
Loss from discontinued operations, net of tax	$	$ (42)	$	$ (312)

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. DEBT TRANSACTIONS

In July 2007 the Company entered into a two-year capital lease obligation for approximately $0.5 million to finance a portion of our technology platform upgrade.

On August 31, 2007 the Company borrowed $10 million from Prides Capital Partners, LLC (Prides), the Company s largest shareholder, in the form of a Senior Secured Note and accompanying agreements (Note). The Note calls for semi-annual interest payments of 15% per annum. The interest can be paid in cash or in equity at the discretion of the Company. The proceeds from the Note will be 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 Note is August 31, 2010. The 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 $3.29 per share. 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 $2.0 million, which will be amortized over the three- year term of the Note using the effective interest method.

Additionally, in connection with the financing, warrants to purchase one million shares 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 upon the occurrence of certain events. 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 Note using the effective interest method.

The Company incurred $0.2 million in issuance costs paid directly to Prides in connection with the Note. In accordance with EITF 00-27, these issuance costs are treated as a note discount and will be amortized over the three-year term of the Note using the effective interest method.

The Note places 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 Note, the Company granted Prides a security interest in all of the Company s equipment, inventory, accounts receivable, trademarks, copyrights, trade secrets, certain pledged equity, certain pledged debt, and certain pledged intellectual property. At September 30, 2007 the Company is in compliance with all the covenants in the Note.

13. 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.

14. SUBSEQUENT EVENTS

The Company is currently evaluating events that are occurring in the fourth quarter of 2007 which may lead to uncertainty regarding future royalty revenue from its European segment. This evaluation could lead to a non-cash impairment of some or all of the goodwill and intangible assets associated with the European segment in the fourth quarter or thereafter.

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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;
- 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 the providers of popular nutrition and fitness approaches and the supplier 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;
- 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, 2006, 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

Recent Developments

On November 14, 2007, Steve Rattner was named President and Chief Executive Officer of the Company. Mr. Rattner joined eDiets in May 2006 following the acquisition of Nutrio.com, Inc., of which he was President and Chief Executive Officer, as well as co-Founder.

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Products and Services

eDiets.com, Inc. (eDiets , the Company or we) leverages the Internet to bring diet, fitness and healthy lifestyle solutions to everyone. We generate revenue in four ways.

We sell internet-based weight-loss programs.

We also offer a range of tangible products online and in 2006 entered the meal delivery business.

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 primarily our diet, fitness and healthy lifestyle-oriented Web sites.

Subscription Business

We have been offering online subscription-based plans in the United States since 1998, when we launched our first diet plan. Our 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 diet plans, some of which we have developed and some of which we have licensed from third parties under exclusive arrangements.

Subscribers to our diet plans receive access to a wealth of support offerings including interactive online information, communities and education as well as telephone and online support. eDiets offers approximately 100 message boards on various topics of interest to our members, 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.

Subscription programs ranging from four weeks to 52 weeks are billed in advance in varying increments of time. Substantially all of our members purchase programs via credit cards, with renewals billed automatically, until cancellation.

Meal Delivery Business

In 2006 we began to offer a nationwide weight loss oriented meal delivery service. Individuals may purchase a full week of freshly prepared breakfasts, lunches, and dinners, supplemented by snacks that are generally shipped to arrive within two to three days. We launched a newly branded and configured service early in the second quarter of 2007 under the name eDiets DeliciouslyYours.

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. Over 80% of visitors to our site are women between the ages of 25 and 54.

Additional advertising revenues are generated through placements in our 12 free opt-in email newsletters and through placements within the subscription sales process. Today between one and two million unique individuals visit the content portions of www.eDiets.com each month.

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General information about us can be found at http://www.eDiets.com/company/company.cfm. We make available our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) as soon as reasonably practicable after we electronically file such materials with the Securities and Exchange Commission, free of charge on our Web site.

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 2006 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 subscriptions to the proprietary content contained in our Web sites. Revenues from customer subscriptions represent the majority of our business and are paid in advance mainly via credit cards. Subscriptions to weight-loss plans are paid in advance and cash receipts are deferred and recognized as revenue on a straight-line basis over the period of the subscription.

In accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent* (EITF 99-19), we recognize gross 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.

We collect customer subscription amounts in advance and maintain a reserve for refunds related to cancelable plans. Under cancelable plans, customers are entitled to cancel their memberships after an initial length of stay and receive a refund of only the unused portion of the membership.

Advertising revenue is recognized in the period the advertisement is displayed, provided that no significant Company obligations remain 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 collection of email addresses are recognized when no significant obligation remains and collection is probable.

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, 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.

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 Web sites for its customers. Both licensing and development revenues are recognized on a straight line basis over the license period once the Web site 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.

Ecommerce revenue is currently derived from the sale of motivational audio tapes or compact discs, journals, pedometers, starter kits and other bundled products to consumers. Revenues from the sales of those products are recognized when the product is shipped.

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Commission revenue is derived from third party vendors whose products are sold on our Web sites. Commission revenue is recognized when the third party vendor ships the product and collection is probable.

Royalty revenue is derived from the 15-year 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 over the term of the agreement, 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.

GOODWILL AND INTANGIBLE ASSETS:

SFAS 142 describes the reporting unit as an operating segment as that term is used in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131). We operate in a single market consisting of the sale of services, information and products related to nutrition, fitness and motivation. We have three reportable segments: the U.S. business-to-consumer segment, the U.S. business-to-business segment and the European business segment. We evaluate goodwill along these segment lines which represent our reporting units.

We use judgment in assessing goodwill for impairment. Goodwill is reviewed annually for impairment, or sooner if events or changes in circumstances indicate that the carrying amount could exceed fair value. Fair value of the Company s reporting units is based on discounted cash flows using a discount rate determined by our management to be consistent with industry discount rates and the risks inherent in our current business model. Due to uncertain market conditions and potential changes in our strategy and product portfolio, it is possible that the forecasts we use to support our goodwill could change in the future, and could result in non-cash charges that would adversely affect our results of operations and financial condition.

At September 30, 2007 we had $13.7 million in goodwill. Approximately $6.8 million of goodwill was recorded as a result of the May 2006 acquisition of Nutrio. Approximately $1.7 million of goodwill was recorded as a result of the July 2004 acquisition of eDiets Europe, with the remaining $5.2 million of goodwill related to the U.S. business-to-consumer reporting unit.

The Company is currently evaluating events that are occurring in the fourth quarter of 2007 which may lead to uncertainty with respect to future royalty revenue prospects from its European segment. This evaluation could lead to a non-cash impairment of some or all of the goodwill and intangible assets associated with the European segment in the fourth quarter or thereafter.

ACCOUNTING FOR EMPLOYEE STOCK-BASED COMPENSATION:

Prior to December 31, 2005, we accounted for our stock option plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, (APB 25) as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). No compensation cost was recognized in the Consolidated Statement of Operations prior to December 31, 2005 for stock option grants that had an exercise price equal to or lower than the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123R, *Share-Based Payment*, and related interpretations (SFAS 123R) using the modified-prospective transition method. Under that method, compensation cost recognized in 2006 includes (a) compensation cost for all share-based payments granted prior to, but not yet vested as of, December 31, 2005 based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Compensation is being recognized on a straight-line basis over the requisite service period for the entire award in accordance with the provisions of SFAS 123R. Results for the prior periods have not been restated.

ACCOUNTING FOR INCOME TAXES:

Effective January 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income* Taxes (FIN 48). 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 our consolidated financial position or results of operations.

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As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the consolidated statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We have recorded a full valuation allowance as of September 30, 2007, due to uncertainties related to our ability to utilize our deferred tax assets, primarily consisting of certain net operating losses carried forward, before they expire. The valuation allowance is based on our estimates of taxable income and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could materially impact our financial position and results of operations.

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,	
	2007	2006	2007	2006
Revenue	100%	100%	100%	100%
Cost of revenue	28	19	22	20
Technology and development	13	7	12	6
Sales, marketing and support	62	49	60	66
General and administrative	27	19	23	17
Amortization of intangible assets	4	2	4	1
Other income, net	(2)	*	*	*
Income tax provision	(1)	*	(1)	*
Loss from discontinued operations		*		(1)
Net (loss) income	(37)%	4%	(23)%	(10)%

* Less than 1%

COMPARISON OF THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

Revenue: Total revenue for the three and nine months ended September 30, 2007 was $6.8 million and $22.8 million, a decrease of 44% and 42%, respectively, versus the $12.2 million and $39.3 million recorded for the comparable prior year periods.

Subscription revenue was $4.4 million and $15.6 million in the three and nine months ended September 30, 2007, respectively, and $9.5 million and $30.8 million in the prior year periods. Subscription revenue is driven by the following two factors: the average number of subscribers and the average weekly fee paid by subscribers. For the three and nine months ended September 30, 2007, the average subscriber base was 49% and 46% lower than the corresponding prior year periods and the average weekly fees were 9% and 7% lower than the corresponding prior year periods. Fewer subscribers were added for all periods in 2007 compared to 2006 as the cost to acquire a subscriber had increased significantly, thereby causing us to reduce our advertising expenditures in the current year.

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All other revenue sources totaled $2.5 million and $7.2 million for the three and nine months ended September 30, 2007, respectively, and $2.8 million and $8.5 million in the comparable prior year periods. Other or non-subscription revenues, and as a respective percentage of change from period to period, are as follows (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006	Three Months Ended September 30, 2007 vs. September 30, 2006	Nine Months Ended September 30, 2007 vs. September 30, 2006
Meal delivery	$ 1,035	$ 666	$ 2,427	$ 2,584	55%	(6)%
Business-to-business	713	704	1,797	1,004	1	79
Advertising	490	932	1,978	2,957	(47)	(33)
Royalties	160	249	741	725	(36)	2
Other	68	222	261	1,180	(69)	(78)
Total	$ 2,466	$ 2,773	$ 7,204	$ 8,450	(9)%	(15)%

Meal delivery, which was introduced in January 2006, and includes shipping revenue, increased 55% in the current quarter as compared to the corresponding prior year period, as the Company increased its advertising and dedicated more technology resources towards that line of business. For the nine months ended September 30, 2007 meal delivery revenues were down 6% compared to the same prior year period due to lower revenues in the first half of 2007. During the first half of 2007, the Company reduced its advertising in preparation for a re-launch of that line of business in the second quarter of 2007.

Business-to-business revenues, which are primarily license related revenues were flat for the quarter while deferred revenue related to business to business revenue was approximately $0.5 million at September 30, 2007 and $0 at September 30, 2006. In 2007, we recorded nine months of business-to-business revenue compared to four and one half months of business-to-business revenue in 2006, as Nutrio was acquired in May 2006.

Advertising revenue from our website and our newsletter decreased by 47% and 33% for the three and nine months ended September 30, 2007, respectively, from the corresponding prior year periods, due to fewer site visitors who observe third-party banner impressions in 2007. Visitors to our websites declined in 2007 in part due to a 57% decrease in advertising expenditures.

In the future the Company expects that revenue streams from revenue sources other than subscriptions will continue to become a larger share of total revenue as growth rates for meal delivery are expected to exceed other lines of business.

Deferred revenue by type is as follows (in millions):

	September 30, 2007	December 31, 2006
Deferred revenue:		
U.S. business-to-consumer	$ 1.2	$ 2.1
U.S. business-to-business	0.5	0.2
Total U.S.	1.7	2.3
Europe	2.1	2.1
Total deferred revenue	$ 3.8	$ 4.4

Cost of Revenue: Cost of revenue consists primarily of product costs, revenue sharing and credit card fees. Other costs include Internet access fees, compensation for nutritional and consulting professionals and depreciation. Cost of revenue decreased to $1.9 million and $5.1 million for the three and nine months ended September 30, 2007 as compared to $2.3 million and $7.7 million for the prior year periods. Gross margin as a percent of revenue declined to 72% and 78% for the three and nine months ended September 30, 2007, respectively, from 81% and 80% from the respective prior year periods as lower margin meal delivery sales became a larger portion of total sales. We anticipate our gross margin will continue to decline in the future as meal delivery revenue becomes a larger share of total revenue.

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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 $0.9 million and $2.8 million for the three and nine months ended September 30, 2007, respectively, as compared to $0.9 million and $2.2 million in the corresponding prior year periods, with the increase mainly due to additional personnel and related costs incurred in part for our technology platform upgrade.

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. These expenses decreased to $4.2 million and $13.8 million for the three and nine months ended September 30, 2007, respectively, from $5.9 million and $25.9 million in the corresponding prior year periods due to decreased spending for advertising media. In total, advertising media expense which is for the U.S. business-to-consumer segment was $2.8 million and $9.2 million for the three and nine months ended September 30, 2007, respectively, as compared to $4.3 million and $21.3 million for the corresponding prior year periods.

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 $1.9 million and $5.2 million for the three and nine months ended September 30, 2007, respectively, as compared to $2.3 million and $6.7 million in the corresponding prior year periods. The decrease for the current period compared to the prior year quarter was mainly due to lower professional and consultant fees. For the nine months ended September 30, 2006 the Company recorded $0.7 million of costs related to the severance arrangement with our former Chief Executive Officer.

Also included in general and administrative expenses are stock-based compensation costs of $0.3 million and $0.7 million for the three and nine months ended September 30, 2007, respectively as compared to $0.1 million and $0.6 million in the corresponding prior year periods.

Amortization of Intangible Assets: Amortization expense was $0.3 million and $0.9 million for the three and nine months ended September 30, 2007, respectively, compared to $0.3 million and $0.5 million for the corresponding prior year periods. In 2007 we recorded nine months or amortization related to intangible assets from the Nutrio acquisition compared to four and a half months of amortization in 2006.

Other (Expense) Income, net: Other income, net, mainly includes interest income and interest expense. We recorded other expense, net of $(0.1) million and $(40,000) for the three and nine months ended September 30, 2007, respectively, as compared to other income, net of $12,000 and $0.2 million in the corresponding prior year periods. The increase in other expense relates to the interest expense recorded in connection with the senior secured note issued in August 2007.

Income Tax Provision: Income tax provision of $0.1 million and $0.2 million for the three and nine months ended September 30, 2007, respectively, primarily relates to the operations of eDiets Europe. In the prior year we recorded $(9,000) and $(0.1) million of income tax expense, respectively.

Loss from Discontinued Operations: Loss from discontinued operations was $(42,000) and $(0.3) million for the three and nine months ended September 30, 2006. The loss from discontinued operations relates to the September 2006 ownership transfer of the German, Spanish and Portuguese Web sites to a third party in exchange for an ongoing royalty on future subscriptions and advertising revenues.

Net (Loss) Income: As a result of the factors discussed above, we recorded a net loss of $(2.5) million and $(5.2) million for the three and nine months ended September 30, 2007, respectively, as compared to a net income of $0.5 million and a net loss of $(3.9) 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 is for online and offline advertising promoting diet and meal programs to potential customers. 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.

At September 30, 2007, we had net working capital of $5.0 million, compared to net working capital of $(0.6) million at December 31, 2006. Cash and cash equivalents at September 30, 2007 were $10.1 million, an increase of $4.1 million from the balance of $6.0 million at December 31, 2006. In 2007 our principal source of liquidity was borrowing $10 million with a three-year term from our largest shareholder to invest in opportunities to grow the business, including advertising our meal delivery program and upgrading our technology platform.

In the third quarter of 2007 we entered into a capital lease obligation of approximately $0.5 million to finance a portion of our technology platform upgrade.

Prior to 2007 we have utilized equity financing to fund operating cash deficits. At the present time we believe that we have adequate cash to fund our working capital and capital expenditures for at least the next 12 months. To the extent we require additional funds to support our operations or the expansion of our business, we may seek to undertake additional debt or 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, 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, $0.2 million loss on disposal of fixed assets related to the write-off of certain internal developed software costs due to our expected technology platform upgrade in the fourth quarter of 2007, offset by an aggregate decrease in cash flows from our operating assets and liabilities of $(0.7) million.

For the nine months ended September 30, 2006, we used $(3.0) million of cash in operating activities. The negative cash flow related to our net loss of $(3.9) million, adjusted for, among other things, certain non-cash items including $0.7 million of depreciation, $0.5 million of amortization of intangibles, $0.9 million if stock based compensation, offset by an aggregate decrease in cash flows from our operating assets and liabilities of $(1.5) million.

Cash Flows from Investing Activities: 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 to purchases of computer equipment, software development costs and leasehold improvements totaling $(1.2) million.

For the nine months ended September 30, 2006 we used $(10.5) million of cash in investing activities. The cash usage was primarily due to the acquisition of Nutrio in May 2006 for $(8.9) million, changes in restricted cash of $(0.5) million and purchases of computer equipment and software development costs of $(1.0) million.

Cash Flows from Financing Activities: Our financing activities provided $9.9 million of cash for the nine months ended September 30, 2007. 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 repayment of capital lease obligations of $(0.3) million.

For the nine months ended September 30, 2006 our financing activities provided for $10.6 million. The cash provided for the nine months ended September 30, 2006 was primarily attributable to $9.0 million in net proceeds from the issuance of common stock to Prides Capital and $1.8 million in proceeds from the exercise of stock options, offset by the repayment of capital lease obligations of $(0.2) million.

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Cash Flows from Discontinued Operations: For the nine months ended September 30, 2006, we used $(0.5) million in operating activities related to certain unprofitable European websites prior to transferring them to a third party in September 2006.

The Company s condensed consolidated financial statements for the three and nine months ended September 30, 2007 have been prepared on a going concern basis, which contemplates the realization of assets and liabilities and commitments in the normal course of business.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk relates primarily to our investment portfolio as the interest rate related to our $10.0 million debt is fixed. Investments are made in accordance with our investment policy and consist of high grade commercial paper. We do not use derivative financial instruments to hedge against interest rate risk as all investments are in the form of held-to-maturity securities with an original maturity of three months or less. Due to the short-term nature of these financial instruments the interest rate risk is deemed to be low. We estimate that the cost of these financial instruments approximates fair value at September 30, 2007.

Foreign Currency Risk

We are exposed to foreign currency risk associated with certain sales transactions being denominated in Euros and British Sterling Pounds and fluctuations of the Euro as the financial position and operating results of the our foreign subsidiary are translated into U.S. Dollars for consolidation. The Company has not implemented a hedging strategy to reduce foreign currency risk.

ITEM 4. CONTROLS AND PROCEDURES

Our President and Chief Financial Officer (the Certifying Officers) are responsible for establishing and maintaining disclosure controls and procedures which include controls and procedures that are designed to ensure that information required to be disclosed in the reports which we file with or submit to the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC. The Certifying Officers have evaluated these controls and procedures and have concluded (based upon their evaluation of these controls and procedures as of the end of the period covered by this report) that our disclosure controls and procedures are effective to: i) ensure that information required to be disclosed by us in this report is accumulated and communicated to management, including our principal executive officers as appropriate, to allow timely decisions regarding required disclosure; and ii) ensure that information required to be disclosed in the reports which we file or submit with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC.

The Certifying Officers have indicated that there were no changes in our internal controls which occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Our management, including the Certifying Officers, does not expect that our disclosure controls or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Our controls and procedures are designed to provide a reasonable level of assurance of reaching the desired control objectives. The Certifying Officers have evaluated our controls and procedures and have concluded (based upon their evaluation of these controls and procedures as of the end of the period covered by this report) that our disclosure controls and procedures effectively provide a reasonable level of assurance of reaching the desired control objectives.

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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. Submission of Matters to a Vote of Security Holders

At our annual meeting of stockholders held on August 21, 2007 the Company s stockholders voted on the following proposal:

1. Proposal to elect directors:

	FOR	WITHHELD
Kevin A. Richardson, II	17,841,607	1,109,816
Stephen L. Cootey	17,691,435	1,259,988
Lee S. Isgur	17,360,779	1,590,644
Pedro N. Ortega-Dardet	17,838,063	1,113,360
Andrea M. Weiss	17,850,831	1,100,592
Robert L. Doretti	17,729,768	1,221,655
Ronald Luks	17,837,175	1,114,248

Item 5. None

Item 6. Exhibits

The following exhibits are included herein:

31.1 Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer of the Company

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company

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/ ROBERT T. HAMILTON
Robert T. Hamilton
Chief Financial Officer
(Principal Financial Officer)

DATE: November 14, 2007

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Exhibit Index

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer of the Company
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company
32.1	Section 1350 Certification of President and Chief Executive Officer of the Company
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