EDIETS COM INC
Form 10-Q
August 13, 2009
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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 June 30, 2009 **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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the issuer was required to submit and post such files). Yes ¨ 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 July 28, 2009:

Common Stock, $.001 par value per share	25,768,832 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EDIETS.COM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 856	$ 2,523
Accounts receivable, net	707	574
Prepaid meal delivery and inventory	237	497
Prepaid expenses and other current assets	327	455
Total current assets	2,127	4,049
Restricted cash	544	544
Property and office equipment, net	2,895	3,665
Intangible assets, net	64	334
Goodwill	6,835	6,835
Other assets	165	244
Total assets	$ 12,630	$ 15,671
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 1,105	$ 1,410
Accrued liabilities	2,212	1,748
Current portion of capital lease obligations	54	83
Deferred revenue	1,361	1,612
Total current liabilities	4,732	4,853
Capital lease obligations, net of current portion	53	67
Deferred revenue	1,205	1,724
Senior secured notes, net related party	14,115	11,808
Commitments and contingencies		
STOCKHOLDERS DEFICIT:		
Common stock	25	25
Additional paid-in capital	46,074	45,307
Accumulated other comprehensive loss	(47)	(61)
Accumulated deficit	(53,527)	(48,052)

Total stockholders deficit	(7,475)	(2,781)
Total liabilities and stockholders deficit	$ 12,630	$ 15,671

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 June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
REVENUE				
Digital plans	$ 1,269	$ 2,524	$ 2,667	$ 5,736
Meal delivery	2,289	2,720	4,196	6,823
Business-to-business	853	844	2,483	1,637
Other	322	363	658	1,019
TOTAL REVENUE	4,733	6,451	10,004	15,215
COSTS AND EXPENSES:				
Cost of revenue				
Digital plans	188	574	463	1,198
Meal delivery	1,714	2,765	3,249	7,123
Business-to-business	73	36	124	63
Other	49	78	112	146
Total cost of revenue	2,024	3,453	3,948	8,530
Technology and development	836	1,021	1,846	1,972
Sales, marketing and support	2,062	2,329	4,321	7,495
General and administrative	1,101	1,809	2,684	3,638
Amortization of intangible assets	97	237	275	529
Total costs and expenses	6,120	8,849	13,074	22,164
Loss from operations	(1,387)	(2,398)	(3,070)	(6,949)
Interest income	3	24	9	75
Interest expense	(1,243)	(721)	(2,397)	(1,378)
Loss before income tax provision	(2,627)	(3,095)	(5,458)	(8,252)
Income tax provision	(11)	(33)	(17)	(1)
Net loss	$ (2,638)	$ (3,128)	$ (5,475)	$ (8,253)
Loss per common share:				
Basic and diluted	$ (0.10)	$ (0.12)	$ (0.22)	$ (0.33)

Weighted average common and common equivalent shares outstanding:				
Basic and diluted	25,193	25,114	25,176	25,079

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)

	Six Months Ended June 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5,475)	$ (8,253)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	799	691
Amortization of intangibles	275	529
Amortization of discount and expenses, senior secured notes related party	952	514
Paid-in-kind interest, senior secured notes related party	1,384	758
Provision for bad debt	21	91
Stock-based compensation	779	1,035
Changes in operating assets and liabilities:		
Accounts receivable	(154)	(664)
Prepaid expenses and other assets	440	128
Accounts payable and accrued liabilities	157	56
Deferred revenue	(770)	140
Net cash used in operating activities	(1,592)	(4,975)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Changes in restricted cash		(222)
Purchases of property and office equipment, net	(29)	(1,487)
Net cash used in investing activities	(29)	(1,709)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options		299
Proceeds from senior secured notes related party		2,500
Common stock issuance costs	(18)	
Repayment of capital lease obligations	(42)	(279)
Net cash (used in) provided by financing activities	(60)	2,520
Effect of exchange rate changes on cash and cash equivalents	14	(162)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,667)	(4,326)
Cash and cash equivalents, beginning of period	2,523	7,132
Cash and cash equivalents, end of period	$ 856	$ 2,806
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 7	$ 17
Cash refunded from income taxes	$ (44)	$

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

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

June 30, 2009

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. 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, 2008.

Going Concern

The Company s condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. For the three and six months ended June 30, 2009, the Company had a net loss of $2.6 million and $5.5 million, respectively, and for the six months ended June 30, 2009 the Company used $1.6 million of cash in its operations. As of June 30, 2009, the Company has an accumulated deficit of $53.5 million and a total stockholders deficit of $7.5 million. As of June 30, 2009 the Company s unrestricted cash balance was approximately $0.9 million.

The continuation of the Company s business is dependent upon raising additional financial support. The additional financing may be provided by common stock, debt, project financing, joint venture projects, a strategic alliance or business combination, or a combination of these. The issuance of additional equity securities by the Company could result in a significant dilution in the equity interests of its current stockholders.

Management has plans to seek additional capital through a private placement or public offering of its common stock and warrant exercises. There can be no assurances that the Company will be successful in raising additional cash to finance operations. If not, the Company will be required to reduce operations and/or liquidate assets and/or seek relief through a filing under the U.S. Bankruptcy Code. The Company s condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

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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 six months of digital subscription and met the guarantee requirements they would receive the next six 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 seven 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), 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 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.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company establishes a reserve for refunds for digital plan and meal delivery sales. Since all digital plan subscriber payments are deferred upon receipt, at the end of each month a portion of the deferred revenue is reclassified as a reserve for refunds. Based on historical experience, approximately 2% 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. Meal delivery refunds mainly result from late shipments or packaging issues. Based on historical experience, approximately 2% of prior month s meal delivery sales will result in a refund, accordingly the Company estimates a reserve based on that assumption for future refunds. 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.

Recent Accounting Pronouncements

In April 2009, the FASB issued three final Staff Positions (FSPs) intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. The FSPs are effective for interim and annual periods ending after June 15, 2009. FSP 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, *Fair Value Measurements*, and relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. FSP 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP 115-2 and 124-2), provide additional guidance on presenting impairment losses on securities to bring consistency to the timing of impairment recognition, and provide clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The FSP also requires increased and more timely disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. The adoption of FSP 157-4, and FSP 115-2 and 124-2 had no impact on our financial position or results of operations.

In April 2009, the FASB issued FSP 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. The FSP amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* to require disclosure about fair value of financial instruments in interim financial statements. FSP FAS 107-1 and APB 28-1 are effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The adoption of FSP 107-1 and APB 28-1 had no impact on the Company s consolidated financial position or results of operations.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (SFAS 165), which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS 165 is effective for interim and annual periods ending after June 15, 2009, and accordingly, the Company adopted this Standard during the second quarter of 2009. SFAS 165 requires that public entities evaluate subsequent events through the date that the financial statements are issued. We have evaluated subsequent events through the time of filing these financial statements with the Securities and Exchange Commission (SEC) on August 13, 2009.

EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS 168). The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will supersede all then-existing non-SEC accounting and reporting standards. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In the FASB s view, the issuance of SFAS 168 and the Codification will not change GAAP but reorganizes the literature. The Company does not expect the adoption of SFAS 168 to have any effect on its consolidated financial position or 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.

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.

The Company s debt consists of $18.5 million of principal of senior secured notes, related party, as discussed more fully in Note 8, which are not traded in an active market and are held by the Company s largest shareholder. As a result of the volatility of substantially all domestic credit markets that currently exists and the difficulty of the Company obtaining similar financing from an unrelated party, the Company is unable, as of June 30, 2009, to determine the fair value of such debt.

4. INTANGIBLE ASSETS 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 June 30, 2009 the Company had $6.8 million of goodwill related to the May 2006 acquisition of Nutrio.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. REVENUE RECOGNITION

Revenue by type is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Digital plans	$ 1,269	$ 2,524	$ 2,667	$ 5,736
Meal delivery	2,289	2,720	4,196	6,823
Business-to-business	853	844	2,483	1,637
Advertising and Ecommerce	233	198	504	668
Royalties	89	165	154	351
	$ 4,733	$ 6,451	$ 10,004	$ 15,215

6. DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009	December 31, 2008
Deferred revenue		
Unearned digital plans revenue	$ 360	$ 428
Unearned development revenue	282	989
Unearned licensing revenue	116	15
Deferred royalty	1,808	1,904
Total deferred revenue	2,566	3,336
Less: current portion of deferred revenue	(1,361)	(1,612)
Non-current portion of deferred revenue	$ 1,205	$ 1,724

7. STOCK-BASED COMPENSATION

The Company grants stock options, unrestricted stock, and restricted stock awards to its employees, officers, directors and consultants. 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 Compensation 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 June 30, 2009, there were 254,677 shares of restricted stock, 31,245 shares of unvested unrestricted stock and 2,125,158 options outstanding under the Incentive Plan.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 June 30, 2009, 1,275,200 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Expected term (in years)	3.3		3.6	3.2
Risk-free interest rate	1.8%	%	1.6%	2.5%
Expected volatility	66.4%	%	65.7%	61.8%
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. The Company uses the historical exercise experience in determining the expected 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.

For each of the three months ended June 30, 2009 and 2008, the Company recognized stock-based compensation expense under SFAS 123R (related to stock options and restricted stock awards) of $0.3 million. During the six months ended June 30, 2009 and 2008, the Company recognized stock-based compensation expense under SFAS 123R (related to stock options and restricted stock awards) of $0.7 million and $0.8 million, respectively. The breakdown of stock-based compensation expense per line item on the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2009 and 2008, is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cost of revenue	$ 4	$ 9	$ 8	$ 20
Technology and development	63	71	122	154

Sales, marketing and support	70	101	136	222
General and administrative	169	109	427	362
	$ 306	$ 290	$ 693	$ 758

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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 December 31, 2008 and the changes during the first six months of 2009 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, 2008	2,725	$ 4.11	3.88	$ 191
Granted	859	2.00		
Exercised				
Forfeited	(71)	4.84		
Expired	(113)	3.88		
Outstanding at June 30, 2009	3,400	$ 3.57	4.33	$
Vested or expected to vest at June 30, 2009	3,106	$ 3.63	4.18	$
Exercisable at June 30, 2009	1,599	$ 4.20	2.82	$

The weighted-average fair value of stock options granted during the three months ended June 30, 2009 was $0.41. There were no stock option grants during the second quarter of 2008. The weighted-average fair value of stock options granted during the six months ended June 30, 2009 and 2008 was $0.96 and $2.41, respectively.

There were no exercises of stock options in the six months ended June 30, 2009. The total intrinsic value of stock options exercised was less than $0.1 million and $0.1 million for the three and six months ended June 30, 2008, respectively. Cash received from the exercise of stock options under the Company s stock plans for the three and six months ended June 30, 2008 was $0.2 million and $0.3 million, respectively.

As of June 30, 2009, there was approximately $1.8 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 2.09 years.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

A summary of the restricted stock awards under the Company s Incentive Plan for the six months ended June 30, 2009 is presented below (shares in thousands):

	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested at December 31, 2008	263	$ 4.87
Granted	18	3.37
Vested	(13)	3.79
Forfeited	(13)	4.24
Non-vested at June 30, 2009	255	$ 4.85

The total fair value of restricted stock awards that vested in the three months ended June 30, 2009 and 2008 was less than $0.1 million and $0.1 million, respectively. The total fair value of restricted stock awards that vested in the six months ended June 30, 2009 and 2008 was less than $0.1 million and $0.4 million, respectively. The non-vested restricted stock awards listed above are expected to vest at the following times: 7,000 shares in the remainder of 2009, and the remaining 248,000 to be determined upon achievement of performance goals that were not met or are not deemed probable of achievement as of June 30, 2009.

As of June 30, 2009, there was less than $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 0.3 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 connection with a new employment agreement. The modification incorporated performance-based vesting conditions to these shares which are not deemed probable of achievement as of June 30, 2009 and, as a result, no compensation expense has been recorded during the six months ended June 30, 2009 related to these restricted shares.

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 were to vest in March 2009, but as the performance condition was not achieved, all previously recorded compensation cost of approximately $0.1 million was reversed in the first quarter of 2009. Performance conditions have not been established for the remaining 46,000 shares, and thus no compensation expense has been recorded for the six months ended June 30, 2009 related to these 46,000 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.

In December 2008, 425,000 shares of restricted stock were awarded to an officer, subject to performance-based vesting conditions, which have not yet been established, and thus no compensation expense has been recorded for the six months ended June 30, 2009 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 425,000 shares have been excluded from the summary of restricted stock awards activity above.

In January 2009, 5,000 shares of restricted stock were awarded to an officer, subject to performance-based vesting conditions, which have not yet been established, and thus no compensation expense has been recorded for the six months ended June 30, 2009 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 5,000 shares have been excluded from the summary of restricted stock awards activity above.

EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the second quarter of 2009, 90,260 shares of unrestricted stock awards were issued to one terminated officer and one terminated employee as part of their severance agreements. These awards vest one-third on the date of grant, and the remaining two-thirds in two 20 day increments. The value related to the awards that vested in the second quarter of 2009 of approximately $89,000 reduced the severance accrual. In addition, 10,000 shares of unrestricted stock awards were issued to an employee as a bonus payment, which was fully vested at time of issuance, and resulted in a bonus expense of $13,000. The fair value of these unrestricted stock awards was the market price of the common stock on the date of grant. The weighted average grant date fair value of these severance and bonus awards was $1.16.

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 pay in-kind the semi-annual interest payments to date. These additional principal amounts represent in aggregate approximately 747,000 shares of the Company s common stock. At the market value of the Company s common stock on June 30, 2009, or $0.93, the excess of the aggregate fair value that Prides will receive at conversion over debt proceeds is zero. These diluted potential common shares were not included in the diluted loss per share for the three and six months ended June 30, 2009 as the effect would have been anti-dilutive. For the three and six months ended June 30, 2008 we had 3,269,389 diluted potential common shares related to the First Note which were included in the diluted loss 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 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 $2.4 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 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 June 30, 2009, the Company has amortized $1.1 million of the beneficial conversion feature discount.

Additionally, in connection with the financing, a warrant to purchase one million shares of the Company s common stock at $5.00 per share was issued to Prides. The warrant has a 10-year term and is 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 warrant is 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 has 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 connection 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 warrant has 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 June 30, 2009, the Company has amortized $0.8 million of this discount.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

On June 23, 2009, the Company executed an Agreement to Amend Warrants (Warrant Amendment) in which the Company agreed to amend this warrant, among others, to reduce the purchase price per share of common stock to $1.00, and Prides agreed to use diligent efforts to exercise this warrant, together with other warrants amended by the Warrant Amendment, in one or more tranches, as soon as reasonably practicable in order to purchase 2.5 million shares underlying these outstanding warrants. The Warrant Amendment further amended the outstanding warrant to provide that no adjustment to the exercise price under Section 3(c) thereof will operate to reduce the exercise price to a price less than the closing price of the Company s common stock on June 22, 2009. To encourage the exercise of Prides rights under the outstanding warrants, as amended by the Warrant Amendment, the Company agreed in the Warrant Amendment to issue Prides one or more warrants (each a New Warrant) to purchase nine shares of the Company s common stock for every 20 shares purchased by Prides as a result of an exercise of the outstanding warrants with an exercise price of $1.20 per share.

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 June 30, 2009, the Company has amortized approximately $0.1 million of this discount.

As of June 30, 2009, the Company s carrying value of the First Note was calculated to be $10.1 million as follows (in thousands):

Senior secured note	$ 10,000
Paid in-kind interest	2,457
Discount related to warrants, net	(969)
Discount related to beneficial conversion feature, net	(1,282)
Discount related to issuance costs, net	(103)
	$ 10,103

The Company recorded approximately $0.9 million and $1.7 million of interest expense, including amortization of the note discounts of $0.4 million and $0.7 million, related to the First Note for the three and six months ended June 30, 2009, respectively. The Company recorded approximately $0.7 million and $1.3 million of interest expense, including amortization of the note discounts of $0.2 million and $0.5 million, related to the First Note for the three and six months ended June 30, 2008, respectively. These amounts are included in the Consolidated Statements of Operations under Interest expense .

The principal of the First Note in the amount of $10 million plus paid in-kind interest of $2.5 million is due upon maturity on August 31, 2010.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 were 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 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 Second 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 556,000 shares of the Company s common stock. The Company chose to pay in-kind the quarterly interest payments to date. These additional principal amounts represent in aggregate approximately 119,000 shares of the Company s common stock. At the market value of the Company s common stock on June 30, 2009, or $0.93, the excess of the aggregate fair value that Prides will receive at conversion over debt proceeds is zero. These diluted potential common shares were not included in the diluted loss per share for the three and six months ended June 30, 2009 and 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 Second 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 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 June 30, 2009, the Company has amortized approximately $0.2 million of the beneficial conversion feature discount.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Additionally, in connection with the Second Note financing, a warrant to purchase 0.5 million shares of the Company s common stock at $4.25 per share was issued to Prides. The warrant has a 10-year term and is 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 warrant is 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 has 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. This warrant is 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 connection 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 warrant has a relative fair value of $1.0 million, which is treated as a note discount and amortized over the three-year term of the Second Note using the effective interest method. As of June 30, 2009, the Company has amortized approximately $0.1 million of this discount.

In connection with the Warrant Amendment mentioned above, on June 23, 2009, the Company agreed to amend this warrant, among others, to reduce the purchase price per share of common stock to $1.00, and Prides agreed to use diligent efforts to exercise this warrant, together with other warrants amended by the Warrant Amendment, in one or more tranches, as soon as reasonably practicable in order to purchase 2.5 million shares underlying these outstanding warrants. The Warrant Amendment further amended the outstanding warrant to provide that no adjustment to the exercise price under Section 3(c) thereof will operate to reduce the exercise price to a price less than the closing price of the Company s common stock on June 22, 2009. To encourage the exercise of Prides rights under the outstanding warrants, as amended by the Warrant Amendment, the Company agreed in the Warrant Amendment to issue Prides one or more New Warrants to purchase nine shares of the Company s common stock for every 20 shares purchased by Prides as a result of an exercise of the outstanding warrants with an exercise price of $1.20 per share.

The Company incurred approximately $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 Second Note using the effective interest method. As of June 30, 2009, the Company has amortized approximately $19,000 of this discount.

As of June 30, 2009, the Company s carrying value of the Second Note was calculated to be $1.3 million as follows (in thousands):

Senior secured note	$ 2,595
Paid in-kind interest	555
Discount related to warrants, net	(860)
Discount related to beneficial conversion feature, net	(949)
Discount related to issuance costs, net	(76)
	$ 1,265

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company recorded approximately $0.2 million and $0.5 million of interest expense, including amortization of the note discounts of approximately $0.1 million and $0.2 million, related to the Second Note in the three and six months ended June 30, 2009, respectively. The Company recorded less than $0.1 million of interest expense, including amortization of the note discounts of approximately $14,000, related to the Second Note for each of the three and six months ended June 30, 2008. These amounts are included in the Consolidated Statement of Operations under Interest expense .

The principal of the Second Note in the amount of $2.6 million plus paid in-kind interest of $0.6 million is due upon maturity on June 30, 2011.

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 (Third Note), with terms similar to the Second Note and as set forth in the Note and Warrant Purchase Agreement. On November 13, 2008 the Company executed the Third Note with the same terms as the Second Note, as described above, with the exception of the conversion price being $2.79. The Third Note is also due on June 30, 2011. The Company will use the proceeds from the sale of the Third Note to fund its business. In addition, there were no warrants issued in connection with the Third Note. The issuance of this Third Note does not impact the accounting or the valuation of the warrants that were issued in connection with the Second Note issued on May 30, 2008.

The Company also executed a Letter Amendment No. 1, to replace the date of the Third Note from June 30, 2008 with the new date of November 13, 2008 and to waive the Ticking Fee from the Note and Warrant Purchase Agreement dated May 30, 2008.

The Third Note has a conversion feature allowing Prides to exercise an option to require the Company to repay the Third Note at maturity through the issuance of equity at $2.79 per share. In the event that Prides exercises that option, the principal payment of the Third Note would represent approximately 914,000 shares of the Company s common stock. The Company chose to pay in-kind the quarterly interest payments to date. These additional principal amounts represent in aggregate approximately 110,000 shares of the Company s common stock. At the market value of our common stock on June 30, 2009, or $0.93, the excess of the aggregate fair value that Prides will receive at conversion over debt proceeds is zero. These diluted potential common shares were not included in the diluted loss per share for the three and six months ended June 30, 2009 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 Third 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 $0.1 million, which will be amortized to interest expense over the term of the Third Note using the effective interest method. In the event that the Company chooses to pay its 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 Third Note using the effective interest method. As of June 30, 2009, the Company has amortized approximately $11,000 of the beneficial conversion feature discount.

The Company incurred approximately $0.1 million in issuance costs paid directly to Prides in connection with the Third Note. In accordance with EITF 00-27, these issuance costs are treated as a note discount and are being amortized over the term of the Third Note using the effective interest method. As of June 30, 2009, the Company has amortized approximately $8,000 of this discount.

EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of June 30, 2009, the Company s carrying value of the Third Note was calculated to be $2.7 million as follows (in thousands):

Senior secured note	$ 2,550
Paid in-kind interest	306
Discount related to beneficial conversion feature, net	(61)
Discount related to issuance costs, net	(48)
	$ 2,747

The Company recorded approximately $0.1 million and $0.2 million of interest expense, including amortization of the note discounts of approximately $9,000 and $21,000, related to the Third Note in the three and six months ended June 30, 2009. These amounts are included in the Consolidated Statement of Operations under Interest expense .

The principal of the Third Note in the amount of $2.55 million plus paid in-kind interest of $0.3 million is due upon maturity on June 30, 2011.

The First Note, Second Note and Third 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 June 30, 2009 the Company is in compliance with all the covenants in the Notes.

9. RELATED PARTY TRANSACTIONS

Senior Secured Notes

On August 31, 2007, May 30, 2008 and November 13, 2008, the Company borrowed $10 million, $2.6 million and $2.55 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.

In connection with the Warrant Amendment as described in Note 8, on June 23, 2009, the Company agreed to reduce the price of all Prides outstanding warrants to $1.00, and Prides agreed to use diligent efforts to exercise, in one or more tranches, a portion of the outstanding warrants as soon as reasonably practicable in order to purchase 2.5 million shares underlying these outstanding warrants. The repricing of these warrants resulted in an additional fair value of the warrants of approximately $0.5 million. To encourage the exercise of Prides rights under the outstanding warrants, as amended by the Warrant Amendment, the Company agreed in the Warrant Amendment to issue Prides one or more New Warrants to purchase nine shares of the Company s common stock for every 20 shares purchased by Prides as a result of an exercise of the outstanding warrants with an exercise price of $1.20 per share.

EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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. Dilutive potential common shares consist of the incremental common shares issuable upon exercise of stock options and warrants (using the treasury stock method), which were not included in diluted loss per share as they would have been anti-dilutive and were approximately 750,000 for each of the three and six months ended June 30, 2009 and approximately 491,000 and 542,000 for the three and six months ended June 30, 2008, respectively. In addition, for each of the three and six months ended June 30, 2009 the Company had zero dilutive potential common shares related to its convertible debt, and approximately 3,269,000 dilutive potential common shares for each of the three and six months ended June 30, 2008, respectively.

11. INCOME TAXES

The Company did not recognize any liability for unrecognized tax benefits for each of the three and six months ended June 30, 2009 and 2008. The Company policy is to record accrued interest and penalties related to unrecognized tax benefits as part of other expense. The Company s federal income tax returns for 2005 through 2007 are open tax years and are subject to examination by the Internal Revenue Service.

The Company recorded approximately $11,000 and $17,000 of income tax expense for the three and six months ended June 30, 2009, respectively, and approximately $33,000 and $1,000 of income tax expense for the corresponding prior year periods, related to the operations of eDiets Europe.

12. COMPREHENSIVE LOSS

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Net loss	$ (2,638)	$ (3,128)	$ (5,475)	$ (8,253)
Other comprehensive income (loss):				
Foreign currency translation	(104)	(5)	14	(162)
Comprehensive loss	$ (2,742)	$ (3,133)	$ (5,461)	$ (8,415)

Accumulated other comprehensive income (loss) as of June 30, 2009 and 2008 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.

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. Prior to 2009 the Company had three reportable segments based on business type: the U.S. business-to-consumer segment, the U.S. business-to-business segment and the European business segment. In 2009, the Company s management began making operating decisions based on the different revenue types and therefore focusing on four reportable segments: the digital plans subscription segment, the meal delivery subscription segment, the business-to-business segment, and the other revenues segment. Accordingly, all prior year segment data in the Company s financial statements has been restated for comparability.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The unallocated amounts represent corporate items that are not specifically allocated to any of the operating segments.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net revenues:				
Digital plans	$ 1,269	$ 2,524	$ 2,667	$ 5,736
Meal delivery	2,289	2,720	4,196	6,823
Business-to-business	853	844	2,483	1,637
Other	322	363	658	1,019
Consolidated net revenues	$ 4,733	$ 6,451	$ 10,004	$ 15,215
Segment income (loss):				
Digital plans	$ 473	$ 1,342	$ 987	$ 2,850
Meal delivery	(368)	(799)	(1,000)	(4,127)
Business-to-business	47	440	690	780
Other	247	98	495	511
Unallocated	(1,786)	(3,479)	(4,242)	(6,963)
Consolidated loss from operations	$ (1,387)	$ (2,398)	$ (3,070)	$ (6,949)

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 EVENTS

On June 23, 2009, the Company executed Securities Subscription and Purchase Agreements (collectively the Purchase Agreements) with three of its directors, Kevin A. Richardson II, Lee Isgur and Kevin McGrath, who is also the Company s President and Chief Executive Officer. Under the terms of the Purchase Agreements, the three directors agreed to purchase an aggregate of 500,000 shares of the Company s common stock in exchange for an aggregate of $0.5 million in cash in a Private Placement. The purchase price of the shares was $1.00 per share, based on the closing price of the Company s common stock on the prior business day, which was June 22, 2009. The Company will use the $0.5 million of gross proceeds from the share sale to fund its business.

As part of the transaction, the Company agreed to issue three Warrants for the Purchase of Shares of Common Stock (each a Warrant), one Warrant to each of the directors, to purchase an aggregate of 225,000 shares of the Company s common stock at an exercise price of $1.20 per share. Each Warrant has a ten year expiration date, is exercisable beginning immediately and provides for a cashless net exercise under certain conditions with respect to up to 25% of the shares of common stock issuable upon exercise thereof. The exercise price of each Warrant is subject to adjustment under certain circumstances; however, no adjustment to the exercise price will operate to reduce the exercise price to a price less than the closing price of the Company s common stock on June 22, 2009.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company has the option to change the expiration date of the Warrant in the event that the closing price per share of common stock is in excess of 150% of the exercise price for thirty (30) consecutive days as reflected on the Nasdaq exchange.

The Company also executed a Registration Rights Agreement (Registration Rights Agreement) with the three directors participating in the Private Placement and with Prides Capital. Pursuant to the Registration Rights Agreement, the Company agrees to register the resale of the shares of common stock issued to the three directors and the shares of common stock issuable upon exercise of each Warrant and New Warrant.

The transactions mentioned above closed on July 15, 2009.

On July 31, 2009 the Company terminated the 15-year exclusive licensing agreement with Tesco Ireland Limited (Tesco) which provided Tesco with exclusive rights to use the Company s personalized diet technology in the United Kingdom and Ireland, with an effective date of July 1, 2009. The termination agreement provides Tesco with certain continuing rights in the Company technology used by or incorporated into Tesco s diet website prior to termination, including a three-year non-exclusive right to use such technology and, thereafter, an assignment of certain intellectual property rights relating to such technology.

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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;

our substantial indebtedness, including covenant compliance;

the possible delisting of our common stock from the NASDAQ stock market;

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 consumer 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 Risk Factors 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, 2008, the factors listed in Item 1A. Risk Factors in Part II of this Quarterly Report on Form 10-Q, 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.

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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 ways.

- We sell digital weight-loss programs.
- We 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 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, food and cooking preferences and include the related shopping lists and recipes. eDiets offers a variety of approximately 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 purchase a full week or five days of 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.

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 2008 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 six months of digital subscription and met the guarantee requirements they would receive the next six 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 seven 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), 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.

Our most significant accounting estimate is our reserve for refunds for digital plan and meal delivery. Since 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 2% 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. Meal delivery refunds mainly result from late shipments or packaging issues. Based on historical experience, approximately 2% of prior month s meal delivery sales will result in a refund, accordingly we estimate a reserve based on that assumption for future refunds. 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

Our condensed consolidated financial statements have been prepared assuming we will continue as a going concern. For the three and six months ended June 30, 2009, we had a net loss of $2.6 million and $5.5 million, respectively. We used $1.6 million of cash in our operations for the six months ended June 30, 2009. As of June 30, 2009, we had an accumulated deficit of $53.5 million, a total stockholders deficit of $7.5 million and our unrestricted cash balance was approximately $0.9 million.

The continuation of our business is dependent upon raising additional financial support. The additional financing may be provided by common stock, debt, project financing, joint venture projects, a strategic alliance or business combination, or a combination of these. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders.

We have plans to seek additional capital through a private placement or public offering of our common stock and warrant exercises. There can be no assurances that we will be successful in raising additional cash to finance operations. If not, we will be required to reduce operations and/or liquidate assets and/or seek relief through a filing under the U.S. Bankruptcy Code. Our condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should we be unable to continue as a going concern.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Revenue	100%	100%	100%	100%
Cost of revenue	43	54	39	56
Technology and development	18	16	18	13
Sales, marketing and support	44	36	43	49
General and administrative	23	28	27	24
Amortization of intangible assets	2	4	3	3
Interest income	*	*	*	*
Interest expense	26	11	24	9
Income tax provision	*	1	*	*
Net loss	(56)%	(48)%	(55)%	(54)%

* Less than 1%

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COMPARISON OF THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 TO THE THREE AND SIX MONTHS ENDED JUNE 30, 2008

Revenue: Total revenue for the three and six months ended June 30, 2009 was $4.7 million and $10.0 million, respectively, a decrease of 27% and 34% versus the $6.5 million and $15.2 million recorded in the comparable prior year periods.

Revenue by type is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Digital plans	$ 1,269	$ 2,524	$ 2,667	$ 5,736
Meal delivery	2,289	2,720	4,196	6,823
Business-to-business	853	844	2,483	1,637
Advertising and Ecommerce	233	198	504	668
Royalties	89	165	154	351
Total revenue	$ 4,733	$ 6,451	$ 10,004	$ 15,215

Digital plans revenue was $1.3 million and $2.7 million in the three and six months ended June 30, 2009, respectively, as compared to $2.5 million and $ 5.7 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 June 30, 2009, the average subscriber base was approximately 12% lower than at June 30, 2008 and the average weekly fees were approximately 2% lower than the corresponding prior year period. Fewer digital plan subscribers were added for the first six months of 2009 compared to 2008 as we have spent less on advertising in the current year period.

Meal delivery had revenues of $2.3 million and $4.2 million, including shipping revenue, for the three and six months ended June 30, 2009, respectively, as compared to $2.7 million and $6.8 million for the corresponding prior year periods. The 39% decrease in meal delivery revenue for the first six months of 2009 as compared to the first six months of 2008 is directly related to the 58% decrease in offline advertising expense in the corresponding six months periods. The reduction in advertising expenditures may drive down our overall customer acquisitions going forward.

Business-to-business revenues, which are primarily development and license related revenues, were approximately $0.9 million and $2.5 million for the three and six months ended June 30, 2009, respectively, as compared to $0.8 million and $1.6 million in the corresponding prior year periods. The increase in revenue is directly related to the expansion of services to existing customers that eDiets Corporate Services manages in the current year and the acceleration of approximately $0.6 million of deferred revenue related to a contract that was cancelled in the first quarter of 2009.

Advertising revenue from our website and our newsletter and Ecommerce revenue was approximately $0.2 million and $0.5 million for the three and six months ended June 30, 2009, respectively, as compared to $0.2 million and $0.7 million for the three and six months ended June 30, 2008, respectively. The decrease for the six months ended June 30, 2009 as compared to the corresponding prior year period is due to fewer site visitors who observed third-party banner impressions in 2009. The number of visitors to our websites has continued to decline in 2009. Due to cash constraints and uncertain returns from advertising we have significantly reduced our spending in both offline campaigns and online advertising. This has generated fewer visitors to our websites.

Royalty revenues related to our licensing agreement with Tesco were less than $0.1 million and $0.2 million for the three and six months ended June 30, 2009, respectively, as compared to $0.2 million and $0.4 million in the corresponding prior year periods.

In the future we expect that revenue streams from revenue sources other than digital plan subscriptions will continue to be 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.

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Cost of Revenue: Total cost of revenue for the three and six months ended June 30, 2009 was $2.0 million and $3.9 million, respectively, as compared to $3.5 million and $8.5 million for the corresponding prior year periods.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Digital plans	$ 188	$ 574	$ 463	$ 1,198
Meal delivery	1,714	2,765	3,249	7,123
Business-to-business	73	36	124	63
Other	49	78	112	146
Total cost of revenue	$ 2,024	$ 3,453	$ 3,948	$ 8,530

Cost of digital plans revenue consists primarily of variable costs such as credit card fees and revenue sharing or royalty costs related to the exclusive license agreements with third party nutrition and fitness companies. Other costs include Internet access fees, compensation for nutritional and consulting professionals and depreciation. Cost of digital plans revenue decreased to $0.2 million and $0.5 million for the three and six months ended June 30, 2009, respectively, as compared to $0.6 million and $1.2 million in the corresponding prior year periods and is directly related to the decline in digital plan subscribers mentioned above.

Cost of meal delivery revenue consists primarily of credit card fees, product costs, fulfillment and shipping costs. Cost of meal delivery revenue decreased to $1.7 million and $3.2 million for the three and six months ended June 30, 2009, respectively, as compared to $2.8 million and $7.1 million in the corresponding prior year periods and is directly related to the decrease in meal delivery revenue as mentioned above and reductions in product costs as a result of our efforts to further reduce the cost of meal components.

Cost of business-to-business revenue consists primarily of Internet access fees to support the various Corporate Services customers. Cost of business-to-business revenue was $0.1 million for the three and six months ended June 30, 2009 and less than $0.1 million and $0.1 million for the three and six months ended June 30, 2008, respectively.

Cost of other revenue consists primarily of Internet serving fees, product and fulfillment cost for ecommerce sales and credit card fees. Cost of other revenue was less than $0.1 million and $0.1 million for the three and six months ended June 30, 2009, respectively, and $0.1 million for the three and six months ended June 30, 2008.

Gross margin as a percent of revenue increased to 57% and 61% for the three and six months ended June 30, 2009, respectively, from 46% and 44% in the comparable prior year periods mainly due to improvements in meal delivery gross margin. Gross margin for digital plans increased to 85% and 83% for the three and six months ended June 30, 2009, respectively, as compared to 77% and 79% for the corresponding prior year periods mainly due to the reduction of our revenue share partner agreements. Meal delivery gross margin increased to 25% and 23% for the three months ended June 30, 2009, respectively, from a negative 2% and a negative 4% for the corresponding prior year periods primarily due to improvement in product costs. We anticipate our total gross margin will improve in the future as our efforts to improve meal delivery margin continue to be 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 $0.8 million and $1.0 million for the three months ended June 30, 2009 and 2008, respectively, and $1.9 million and $2.0 million for the six months ended June 30, 2009 and 2008, 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 two of our product line segments: digital plans and meal delivery. Sales, marketing and support expenses decreased to $2.0 million and $4.3 million for the three and six months ended June 30, 2009, respectively, as compared to $2.3 million and $7.5 million for the corresponding prior year periods and represent mainly advertising media expense and compensation expense. In total, advertising media expense was $0.8 million for each of the three months ended June 30, 2009 and 2008 and $1.8 million and $4.2 million for the six months ended June 30, 2009 and 2008, respectively. Due to cash constraints and uncertain returns from advertising we have significantly reduced our spending in both offline campaigns and online advertising.

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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 decreased to $1.1 million and $2.7 million for the three and six months ended June 30, 2009, respectively, as compared to $1.8 million and $3.6 million in the corresponding prior year periods. The decrease in current periods is mainly due to lower recruiting expenses and lower professional fees.

Amortization of Intangible Assets: Amortization expense relates to the intangible assets acquired in the 2006 Nutrio acquisition. Amortization expense decreased to $0.1 million and $0.3 million for the three and six months ended June 30, 2009, respectively, as compared to $0.2 million and $0.5 million for the corresponding prior year periods. The current year decrease is due to some of the intangibles being fully amortized.

Interest Income: Interest income was less than $0.1 million for the each of the three and six months ended June 30, 2009 and 2008.

Interest Expense: Interest expense increased to $1.2 million and $2.4 million for the three and six months ended June 30, 2009, respectively, as compared to $0.7 million and $1.4 million for the corresponding prior year periods. 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, May 2008 and November 2008.

Income Tax Provision: Income tax provision was less than $0.1 million for each of the three and six months ended June 30, 2009 and it relates to the operations of eDiets Europe.

Net Loss: As a result of the factors discussed above, we recorded a net loss of $2.6 million and $5.5 million for the three and six months ended June 30, 2009, respectively, and a net loss of $3.1 million and $8.3 million for the corresponding prior year periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company s principal use of cash in its operating activities for the six months ended June 30, 2009 was 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. 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 June 30, 2009, we had a net working capital deficit of $2.6 million, compared to a net working capital deficit of $0.8 million at December 31, 2008. Cash and cash equivalents at June 30, 2009 were $0.9 million, a decrease of $1.6 million from the balance of $2.5 million at December 31, 2008. In 2008, our principal source of liquidity was borrowing an aggregate amount of $5.1 million, in the second and fourth quarters of 2008, with a three-year term from our majority shareholder, to be used for general corporate purposes.

Our condensed consolidated financial statements have been prepared assuming we will continue as a going concern. Our accumulated deficit amounts to $53.5 million as of June 30, 2009.

On June 23, 2009, we executed Securities Subscription and Purchase Agreements (collectively the Purchase Agreements) with three of our directors, Kevin A. Richardson II, Lee Isgur and Kevin McGrath, who is also the Company s President and Chief Executive Officer. Under the terms of the Purchase Agreements, the three directors agreed to purchase an aggregate of 500,000 shares of our common stock in exchange for an aggregate of $0.5 million in cash in a Private Placement. The purchase price of the shares was $1.00 per share, based on the closing price of our common stock on the prior business day, which was June 22, 2009. The transaction closed on July 15, 2009. We will use the $0.5 million of gross proceeds to fund our business. As part of this transaction,

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we agreed to issue three Warrants for the Purchase of Shares of Common Stock (each a Warrant), one Warrant to each of the directors, to purchase an aggregate of 225,000 shares of the Company s common stock at an exercise price of $1.20 per share. Each Warrant has a ten year expiration date, is exercisable beginning immediately and provides for a cashless net exercise under certain conditions with respect to up to 25% of the shares of common stock issuable upon exercise thereof. The exercise price of each Warrant is subject to adjustment under certain circumstances; however, no adjustment to the exercise price will operate to reduce the exercise price to a price less than the closing price of our common stock on June 22, 2009. We have the option to change the expiration date of the Warrant in the event that the closing price per share of common stock is in excess of 150% of the exercise price for thirty (30) consecutive days as reflected on the Nasdaq exchange.

In addition, on June 23, 2009, we executed an Agreement to Amend Warrants (Warrant Amendment) with Prides in which we agreed to reduce the price of all Prides outstanding warrants to $1.00, and Prides agreed to use diligent efforts to exercise, in one or more tranches, a portion of the outstanding warrants as soon as reasonably practicable in order to purchase 2.5 million shares underlying these outstanding warrants. The Warrant Amendment further amended the outstanding warrants to provide that no adjustment to the exercise price under Section 3(c) thereof will operate to reduce the exercise price to a price less than the closing price of our common stock on June 22, 2009. To encourage the exercise of Prides rights under the outstanding warrants, as amended by the Warrant Amendment, we agreed in the Warrant Amendment to issue Prides one or more Warrants for the Purchase of Shares of Common Stock (each a New Warrant) to purchase nine shares of our common stock for every 20 shares purchased by Prides as a result of an exercise of the outstanding warrants with an exercise price of $1.20 per share. We will use the $2.5 million of gross proceeds to fund our business and expand our offline advertising.

Management has plans to seek additional capital through a private placement or public offering of our common stock. There can be no assurances that we will be successful in raising additional cash to finance operations. If not, we will be required to reduce operations and/or liquidate assets and/or seek relief through a filing under the U.S. Bankruptcy Code. Our condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should we be unable to continue as a going concern.

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 six months ended June 30, 2009, we used $1.6 million of cash in operating activities. The negative cash flow related to our net loss of $5.5 million, adjusted for, among other things, certain non-cash items including $0.8 million of depreciation, $0.3 million of amortization of intangibles, $1.0 million of amortization of the senior secured notes related party discount and expenses, $1.4 million of paid-in-kind interest of the senior secured notes related party, less than $0.1 million of provision for bad debt, and $0.8 million of stock-based compensation, and an aggregate decrease in cash flows from our operating assets and liabilities of $0.3 million.

For the six months ended June 30, 2008, we used $5.0 million of cash in operating activities. The negative cash flow related to our net loss of $8.3 million, adjusted for, among other things, certain non-cash items including $0.7 million of depreciation, $0.5 million of amortization of intangibles, $0.5 million of amortization of the senior secured notes related party discount and expenses, $0.8 million of paid-in-kind interest of the senior secured notes related party, $0.1 million of provision for bad debt, and $1.0 million of stock-based compensation, and an aggregate decrease in cash flows from our operating assets and liabilities of $0.3 million.

Cash Flows from Investing Activities: For the six months ended June 30, 2009 we used less than $0.1 million of cash in investing activities. The cash usage was due to less than $0.1 million of capital expenditures, primarily computer equipment.

For the six months ended June 30, 2008 we used $1.7 million of cash in investing activities. The cash usage was due to an increase in restricted cash of $0.2 million to fund a collateral account related to a capital lease obligation for our technology platform upgrade, and $1.5 million of capital expenditures, primarily computer equipment and software development costs.

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Cash Flows from Financing Activities: For the six months ended June 30, 2009 we used $0.1 million in financing activities. The cash used related to the repayment of capital lease obligations and common stock issuance costs related to the private investment transaction that closed on July 15, 2009.

For the six months ended June 30, 2008 our financing activities provided for $2.5 million of cash. 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 $0.3 million.

RECENT DEVELOPMENTS

In order to maintain listing on NASDAQ, the total market value of our outstanding common stock must be at least $35 million over a specified period. In April 2009, we received a notice of non-compliance with NASDAQ s continued listing standard relating to the $35 million minimum market value requirement. The notice further advised us that we do not meet either of two alternative standards, one requiring minimum stockholders equity of $2.5 million and the other requiring net income from continuing operations of $0.5 million in the most recently completed fiscal year or in two of the last three most recently completed fiscal years. In July 2009, we received a determination letter from NASDAQ indicating that we did not regain compliance by June 30, 2009 and as a result we would be subject to delisting unless we request a hearing before a NASDAQ Listing Qualifications Panel (the Panel). We have requested a hearing before a Panel and the hearing was held on August 6, 2009. The Panel has not yet issued a decision. Consequently, our common stock will remain listed on the NASDAQ Capital Market until the panel reaches a decision following the hearing. However, there can be no assurances that the Panel will grant us the request for continued listing. If our common stock is delisted, we cannot provide any assurance that our securities will be quoted on any other quotation service, such as the over the counter bulletin board or the pink sheets quotation services. The delisting of our securities may adversely affect the liquidity and market price of our common stock and adversely impact our future access to the capital markets.

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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 six months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, 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 1A. Risk Factors

The information below should be read in conjunction with the risk factors and information described in the Company s 2008 Form 10-K.

Our common stock may be delisted.

NASDAQ requires that the total market value of our outstanding common stock be at least $35 million over a specified period or we meet certain other standards in order to maintain our listing on NASDAQ. In April 2009, we received a notice of non-compliance with NASDAQ s continued listing standard relating to the $35 million minimum market value requirement. In July 2009, we received a determination letter from NASDAQ indicating that we did not regain compliance by June 30, 2009 and as a result we would be subject to delisting unless we request a hearing before a NASDAQ Listing Qualifications Panel (the Panel). We have requested a hearing before a Panel and the hearing was held on August 6, 2009. The Panel has not yet issued a decision. Although, our common stock will remain listed on the NASDAQ Capital Market until the panel reaches a decision following the hearing, there can be no assurances that the Panel will grant us the request for continued listing. If our common stock is delisted, we cannot provide any assurance that our securities will be quoted on any other quotation service, such as the over the counter bulletin board or the pink sheets quotation services. The delisting of our securities may adversely affect the liquidity and market price of our common stock and adversely impact our future access to the capital markets.

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 May 5, 2009 the Company s stockholders voted on the following proposal:

1. Proposal to elect directors:

	FOR	WITHHELD
Kevin A. Richardson, II	23,785,521	832,662
Stephen L. Cootey	23,743,495	874,688
Robert L. Doretti	23,909,334	708,849
Lee S. Isgur	23,845,956	772,227
Ronald Luks	23,721,594	896,589
Pedro N. Ortega-Dardet	23,964,084	654,099
Kevin McGrath	24,236,393	381,790

Item 5. None

Item 6. Exhibits

The following exhibits are included herein:

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 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: August 13, 2009

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Exhibit Index

Exhibit No.	Description
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 Chief Executive Officer of the Company
32.2	Section 1350 Certification of Chief Financial Officer of the Company