

EDIETS COM INC
Form 10-Q
August 11, 2008
Table of Contents

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, 2008

Commission File Number 0-30559

eDiets.com, Inc.

(Exact name of issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1000 Corporate Drive, Suite 600
Fort Lauderdale, Florida 33334

56-0952883
(I.R.S. Employer
Identification No.)

Edgar Filing: EDIETS COM INC - Form 10-Q

(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 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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 29, 2008:

Common Stock, \$.001 par value per share

25,149,774 shares

Table of Contents

eDiets.com, Inc,

Index to Form 10-Q

	PAGE
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007</u>	3
<u>Condensed Consolidated Statements of Operations Three and six months ended June 30, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows Six months ended June 30, 2008 and 2007</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	28
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	29
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	29
Item 6. <u>Exhibits</u>	29
<u>SIGNATURE</u>	30

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****EDIETS.COM, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

(unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,806	\$ 7,132
Accounts receivable, net	1,751	1,178
Prepaid meal delivery	211	270
Prepaid expenses and other current assets	726	814
Total current assets	5,494	9,394
Restricted cash	1,395	1,174
Property and office equipment, net	4,439	3,633
Intangibles, net	683	1,209
Goodwill	12,026	12,026
Other assets	258	255
Total assets	\$ 24,295	\$ 27,691
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,388	\$ 1,339
Accrued liabilities	2,829	2,797
Current portion of capital lease obligations	396	479
Deferred revenue	1,746	1,674
Total current liabilities	6,359	6,289
Capital lease obligations, net of current portion	118	303
Deferred revenue	2,033	1,990
Senior secured note, net related party	7,553	6,247
Commitments and contingencies		
STOCKHOLDERS EQUITY:		
Common stock	25	25
Additional paid-in capital	44,976	41,191
Accumulated other comprehensive (loss) income	(312)	(150)
Accumulated deficit	(36,457)	(28,204)
Total stockholders equity	8,232	12,862

Edgar Filing: EDIETS COM INC - Form 10-Q

Total liabilities and stockholders' equity	\$ 24,295	\$ 27,691
--	-----------	-----------

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

Table of Contents**EDIETS.COM, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
REVENUE				
Digital plans	\$ 2,524	\$ 5,124	\$ 5,736	\$ 11,256
Meal delivery	2,720	711	6,823	1,391
Other	1,207	1,716	2,656	3,348
TOTAL REVENUE	6,451	7,551	15,215	15,995
COSTS AND EXPENSES:				
Cost of revenue				
Digital plans	574	670	1,198	1,655
Meal delivery	2,765	719	7,123	1,290
Other	114	119	209	256
Total cost of revenue	3,453	1,508	8,530	3,201
Technology and development	1,021	1,017	1,972	1,891
Sales, marketing and support	2,329	4,416	7,495	9,569
General and administrative	1,809	1,671	3,638	3,351
Amortization of intangible assets	237	302	529	604
Total costs and expenses	8,849	8,914	22,164	18,616
Loss from operations	(2,398)	(1,363)	(6,949)	(2,621)
Interest income	24	29	75	97
Interest expense	(721)	(25)	(1,378)	(33)
Income tax provision	(33)	(83)	(1)	(142)
Net loss	\$ (3,128)	\$ (1,442)	\$ (8,253)	\$ (2,699)
Loss per common share:				
Basic and diluted	\$ (0.12)	\$ (0.06)	\$ (0.33)	\$ (0.11)
Weighted average common and common equivalent shares outstanding:				
Basic and diluted	25,114	24,748	25,079	24,707

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

Table of Contents**EDIETS.COM, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (8,253)	\$ (2,699)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	691	447
Amortization of intangibles	529	604
Amortization of senior secured notes related party discount and expenses	514	
Provision for bad debt	91	11
Stock-based compensation	1,035	717
Loss on disposal of fixed assets		20
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(664)	76
Prepaid expenses and other assets	128	58
Accounts payable and accrued liabilities	814	(256)
Deferred revenue	140	(541)
Net cash used in operating activities	(4,975)	(1,560)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Earnout from acquisition of Nutrio		(1,250)
Changes in restricted cash	(222)	
Purchases of property and office equipment, net	(1,487)	(427)
Net cash used in investing activities	(1,709)	(1,677)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	299	285
Proceeds from senior secured notes, net related party	2,500	
Repayment of capital lease obligations	(279)	(122)
Net cash provided by financing activities	2,520	163
Effect of exchange rate changes on cash and cash equivalents	(162)	(5)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,326)	(3,079)
Cash and cash equivalents, beginning of period	7,132	6,015
Cash and cash equivalents, end of period	\$ 2,806	\$ 2,936
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 17	\$ 11
Cash paid for income taxes	\$	\$
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under capital leases	\$ 10	\$ 69

Edgar Filing: EDIETS COM INC - Form 10-Q

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

Table of Contents

EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited)

1. ORGANIZATION

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

2. BASIS OF PRESENTATION

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

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

At June 30, 2008, the Company had a net working capital deficit of \$0.9 million, compared to net working capital of \$3.1 million at December 31, 2007. Cash and cash equivalents at June 30, 2008 were \$2.8 million, a decrease of \$4.3 million from the balance of \$7.1 million at December 31, 2007. In 2007, the Company's principal source of liquidity was borrowing \$10 million, in the third quarter of 2007, with a three-year term from the Company's majority shareholder to invest in opportunities to grow the business, including advertising its meal delivery program and upgrading its technology platform. In the second quarter of 2008 the Company borrowed an additional \$2.6 million from the same shareholder, with a three year term, to be used for general corporate purposes. The Company expects that cash required for operations and capital expenditures during the second half of 2008 will be in the range of \$1.0 million to \$2.0 million.

Prides Capital Partners LLC (Prides), the Company's majority shareholder, represented its intention to provide the necessary level of financial support to the Company to enable it to pay its debts as they become due through December 31, 2008. Prides and its affiliates have the financial resources to fulfill this commitment. Management believes that cash and cash equivalents as of June 30, 2008 of \$2.8 million together with the additional financial support from Prides are sufficient to fund operations for the remainder of the year. Prides has irrevocably committed to provide the Company with an additional \$2.5 million in Senior Secured Notes, with terms similar to the Senior Secured Note from May 2008. To the extent the Company requires additional funds to support its operations or the expansion of its business it may seek to undertake additional equity financing. There can be no assurance that additional financing, if required, will be available to the Company in amounts or on terms acceptable to the Company, or at all.

Significant Accounting Policies

The Company offers memberships to the proprietary content contained in its Web sites. Revenues from customer subscriptions are paid in advance mainly via credit/debit cards. Subscriptions to the Company's digital plans are paid in advance and cash receipts are deferred and recognized as revenue on a straight-line basis over the period of the digital plan subscription. Beginning in January 2008, the Company began to offer a guarantee to all customers, under which if a customer did not meet their weight loss goal upon completion of consecutive 6-months of digital subscription and met the guarantee requirements they would receive the next 6-months of digital subscription for free. The Company

Edgar Filing: EDIETS COM INC - Form 10-Q

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.

Table of Contents

EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Meal delivery revenue is recognized when the earnings process is complete, which is upon transfer of title of the product. This transfer occurs upon shipment from the Company's fulfillment center to the end-customer. Meal delivery revenue includes amounts billed for shipping. In accordance with EITF 99-19, the Company recognizes gross meal delivery revenues based on the relevant fact that the Company is the primary obligor and has assumed asset risk before the customers place any orders. Beginning in January 2008, the Company began offering two promotions: a) buy 7 weeks of meal delivery and get the 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 SFAS 48, the Company recognizes revenue on those products only when the guarantee period lapses.

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

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

Table of Contents

EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (con