

EDIETS COM INC
Form 10-Q
November 15, 2004
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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

Commission File Number 0-30559

eDiets.com, Inc.

(Exact name of issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

3801 W. Hillsboro Boulevard
Deerfield Beach, Florida 33442
(Address of principal executive offices)

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(954) 360-9022

(Issuer's telephone number, including area code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

Check whether the issuer is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

At November 5, 2004, there were 20,982,760 shares of common stock, par value \$.001 per share, outstanding.

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

(In thousands)

	September 30, 2004 (Unaudited)	December 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,803	\$ 6,063
Accounts receivable, net	1,226	970
Prepaid advertising costs	6	118
Prepaid expenses and other current assets	470	351
Total current assets	13,505	7,502
Restricted cash	209	202
Property and equipment, net	1,220	1,120
Intangibles, net	715	80
Goodwill	7,150	5,191
Other assets	42	48
Total assets	\$ 22,841	\$ 14,143
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,020	\$ 2,139
Accrued liabilities	5,715	1,584
Reserve for refunds	347	344
Current portion of capital lease obligations and notes payable	93	84
Deferred revenue	3,768	3,945
Total current liabilities	15,943	8,096
Capital lease obligations, net of current portion	61	67
Deferred revenue	2,190	
Deferred tax liability	89	30
Commitments and contingencies		
STOCKHOLDERS EQUITY:		
Common stock	21	18
Additional paid-in capital	20,603	12,176
Unearned compensation	(82)	(115)

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Accumulated other comprehensive loss	(10)	
Accumulated deficit	(15,974)	(6,129)
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Total stockholders' equity	4,558	5,950
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Total liabilities and stockholders' equity	\$ 22,841	\$ 14,143
	<hr/>	<hr/>

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 September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
REVENUE	\$ 11,810	\$ 11,120	\$ 34,271	\$ 27,500
COSTS AND EXPENSES:				
Cost of revenue	1,513	1,295	4,602	3,229
Product development	614	361	1,618	1,065
Sales and marketing	9,304	7,123	32,367	21,610
General and administrative	1,555	1,256	4,935	3,509
Depreciation and amortization	223	310	640	981
Impairment of intangible assets			54	183
Total costs and expenses	13,209	10,345	44,216	30,577
(Loss) income from operations	(1,399)	775	(9,945)	(3,077)
Other income, net	33	26	71	13
Income tax benefit	3	118	29	240
Net (loss) income	\$ (1,363)	\$ 919	\$ (9,845)	\$ (2,824)
(Loss) earnings per common share:				
Basic	\$ (0.07)	\$ 0.05	\$ (0.50)	\$ (0.17)
Diluted	\$ (0.07)	\$ 0.05	\$ (0.50)	\$ (0.17)
Weighted average common and common equivalent shares outstanding:				
Basic	20,633	16,723	19,717	16,173
Diluted	20,633	18,865	19,717	16,173

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)

	Nine Months Ended September 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (9,845)	\$ (2,824)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	585	514
Amortization of intangibles	55	467
Provision (recoveries) for bad debts and sales returns	160	(16)
Stock-based compensation	32	40
Loss on disposals of fixed assets and impairment of intangible assets	54	257
Deferred tax benefit	(33)	(243)
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(405)	(22)
Prepaid expenses and other current assets	65	1,196
Restricted cash	(7)	554
Accounts payable and accrued liabilities	5,258	1,531
Deferred revenue	(384)	1,696
Net cash (used in) provided by operating activities	(4,465)	3,150
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(618)	(477)
Proceeds from sale of property and equipment	56	
Acquisition of minority interest of eDiets Europe, net of cash acquired	286	
Effect of consolidation of previously unconsolidated subsidiary	2,880	
Net cash provided by (used in) investing activities	2,604	(477)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,225	1,815
Repayment of capital lease obligations and notes payable	(103)	(611)
Issuance costs of common stock	(561)	(23)
Proceeds from issuance of common stock	7,040	
Net cash provided by financing activities	7,601	1,181
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,740	3,854
Cash and cash equivalents, beginning of period	6,063	2,144
Cash and cash equivalents, end of period	\$ 11,803	\$ 5,998
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 13	\$ 124

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under capital leases	\$ 107	\$ 41

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

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

(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 majority of the Company's revenues are derived from the sale of subscriptions to those programs. The Company markets its programs primarily through advertising and other promotional arrangements on the World Wide Web and is moving towards the use of offline advertising and other promotional efforts as well.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. All the adjustments which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown are of a normal recurring nature and have been reflected in the unaudited condensed consolidated financial statements. Results of operations for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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-KSB, for the fiscal year ended December 31, 2003.

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

3. EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon exercise of stock options and warrants (using the treasury stock method). Potential common shares outstanding have not been included in the computation of diluted loss per share for the three months ended September 30, 2004 and the nine months ended September 30, 2003 and 2004, as their effect is anti-dilutive.

4. ACQUISITION OF EDIETS EUROPE

On July 15, 2004, eDiets BVI, Inc., a wholly-owned subsidiary of eDiets.com, Inc., acquired the 40% of eDiets Europe Ltd. (eDiets Europe) not already owned for approximately \$1,529,000 and 255,605 shares of common stock of eDiets.com, Inc. valued at approximately \$726,000. As a result, eDiets Europe became a wholly-owned subsidiary of the Company.

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EDIETS.COM, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The 40% minority interest of eDiets Europe was acquired from Ciaran McCourt, an eDiets board member. In connection with the buyout of the minority interest owned by the related party the Company utilized a third party advisor to assist in the determination of the purchase price to be paid by the Company. Accordingly, the Company believes such buyout of the minority interest was completed on an arm's length basis.

The primary reason for the acquisition of eDiets Europe was to be able to accelerate revenue growth and cash flows by consolidating the Company's operations in the US and United Kingdom. In addition, through the acquisition of eDiets Europe, the Company believes it will benefit by working with Tesco.com, a wholly-owned subsidiary of Tesco plc, under an exclusive 15-year license agreement involving eDiets' online diet service and having Tesco offer this service to a much wider audience.

The acquisition was accounted for under the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations*. The results of operations of eDiets Europe have been included in the Company's financial statements for periods subsequent to July 15, 2004. The Company allocated the cost of the acquisition to the assets acquired and the liabilities assumed based on their estimated fair values. The excess of the cost over the fair value of net assets acquired of approximately \$1,822,000 has been reflected as goodwill and is not expected to be deductible for income tax purposes. The purchase accounting is tentative based on information currently available and subject to change.

A summary of the purchase price for the acquisition is as follows (in thousands):