EDIETS COM INC
Form 10-K
March 29, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For fiscal year ended December 31, 2006 **Commission File Number: 0 30559**

eDiets.com, Inc.

(Name of registrant 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, FL 33334

(Address of principal executive offices)

(954) 360-9022

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par Value $0.001 Per Share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ¨.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

The aggregate market value of shares of the Common Stock held by non-affiliates at the end of the most recently completed second fiscal quarter, based upon the average of the bid and asked prices for such stock on that date, was approximately $71.6 million. As of March 20, 2007 there were 24,658,582 shares of the registrant s Common Stock outstanding.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our ability to meet our financial obligations;
- the relative success of marketing and advertising;
- the continued attractiveness of our diet and fitness programs;
- competition, including price competition and competition with self-help weight loss and medical programs;
- our ability to obtain and continue certain relationships with the providers of popular nutrition and fitness approaches and the supplier of our meal delivery services;
- adverse results in litigation and regulatory matters, more aggressive enforcement of existing legislation or regulations, a change in the interpretation of existing legislation or regulations, or promulgation of new or enhanced legislation or regulations;
- significant investments in our technology platform, marketing plans, and product development to remain competitive with other online providers of healthy living and weight loss plans, many of which may be found to offer superior and more varied features than our plans and may also be offered for free;
- our inability to obtain sufficient and/or acceptable outside financing or funding (when and if required);
- general economic and business conditions; and
- terrorist activities and the prospect of or the actuality of war.

The factors listed in the section entitled Certain Factors Which May Affect Future Results in the section Management s Discussion and Analysis of Financial Condition and Results of Operations , 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. We do not undertake any obligation to publicly release 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.

PART I

ITEM 1. BUSINESS

GENERAL

Products and Services

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

We sell internet-based diet, fitness and recipe programs.

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

We derive licensing revenues for the use of our intellectual property and development revenues related to the planning, design and development of private-label nutrition websites.

We also sell advertising throughout our content assets, which are primarily our diet, fitness and healthy lifestyle-oriented Web sites.

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Subscription Business

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

Subscribers to our diet plans receive access to a wealth of support offerings including interactive online information, communities and education as well as telephone and online support. eDiets offers approximately 100 message boards on various topics of interest to our members, online meetings presented by licensed mental health counselors, registered dietitians and certified fitness trainers and the resources of approximately 30 customer service representatives, nutritionists and fitness personnel.

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

Subscription sales totaled $38 million or 78% of total revenues, in 2006. The three primary revenue drivers of this business are the average weekly fee paid by the user, the user s length of stay and the number of subscribers. During 2006 our members paid an average price of approximately $4 per week and stayed an average of six months. As of December 31, 2006 we had approximately 118,000 paying subscribers.

Meal Delivery Business

In January 2006 we began to offer a nationwide weight loss oriented meal delivery service. Individuals may purchase a full week of freshly prepared breakfasts, lunches, and dinners, supplemented by snacks that are generally shipped to arrive within two to three days. During 2006 we recorded approximately $3.2 million in meal delivery revenue, or approximately 7% of total revenues for 2006. We recently announced that we plan to launch a newly branded and configured service early in the second quarter of 2007.

License Business

With our May 2006 acquisition of Nutrio.com, Inc. (Nutrio), a leading provider of interactive private-label nutrition, fitness and wellness programs, eDiets entered the business-to-business channel. Our Nutrio subsidiary is actively engaged in providing private label nutrition, fitness and wellness programs to companies mainly in the health insurance, pharmaceutical and food industries. Since May 2006 we recorded approximately $1.6 million in business to business revenue, or approximately 3% of total revenues for 2006.

We also recognized approximately $0.9 million in royalty revenue in 2006 as a result of having licensed to Tesco plc (Tesco) the exclusive rights to use eDiets brand name and diet plan technology in the UK and Ireland and having licensed to eDiets International GmbH similar rights for certain European and Latin American countries.

Content Business

Our advertising sales revenues accounted for approximately $3.8 million or 8% of total revenues in 2006. The majority of these sales 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, Family Nutrition, From Our Experts, and Success Stories. Over 80% of visitors to our site are women between the ages of 25 and 54.

Additional advertising revenues are generated through placements in our 13 free opt-in email newsletters and through placements within the subscription sales process. Today between one and two million unique individuals visit the content portions of www.eDiets.com and generate advertising impressions that can be sold every month.

Market

Our long-term product development and marketing plans are based on our thesis that over time individuals and corporations are becoming more aware of the negative health and financial consequences of being overweight and, therefore, more will focus not only on weight loss but also on healthy weight maintenance. A 2001 study by Sturm and Wells chronicled in the publication *Public Health* concluded that obesity was linked to higher rates of chronic illness than living in poverty, and much higher rates than smoking or drinking. Obesity is highly correlated with the incidence of diabetes; according to the Centers for Disease Control the percentage of the population suffering from diabetes has risen from approximately 4% in 1991 to approximately 7% in 2004. In addition, during 2003 the American Cancer Society reported that as many as 14% of cancer deaths in men and 20% of cancer deaths in women could be related to being overweight.

Turning from the health impact to the financial costs of obesity, during 2003 a study based on data from the approximately 180,000 employees in General Motors healthcare plan showed that an overweight adult has annual healthcare costs that are 7.3% higher than a person in a healthy weight range, while obese individuals have annual healthcare costs that are 69% higher than a person of a healthy weight. We believe that the cost of obesity is one of the factors that has driven health expenditures in the U.S., as reported by the Centers for Medicare & Medicaid Services, from $0.8 trillion in 1991 to $1.9 trillion in 2004. With healthcare cost inflation of this magnitude, we believe that the implementation of effective weight management tools is attracting more attention from insurers, employers, consumers and the government.

Market Potential

Approximately 66% of the U.S. adult population, or 140 million adults, are overweight. The Calorie Control Council estimates about 70 million individuals in the U.S. were on a diet during December 2006. With approximately two-thirds of the U.S. population now online we estimate that our addressable market is approximately 42 million adults at any given time. Market penetration remains in its early stages, with the online diet industry in the U.S. generating approximately $215 million in revenues in 2006.

With the introduction of its newly branded and priced weight loss meal delivery service in the second quarter of fiscal 2007, eDiets expects meal delivery revenues to become a more significant part of its revenue mix. Marketdata Enterprises, Inc. estimates that the market for diet food home delivery totaled approximately $800 million in 2006 and will grow in excess of 30% in 2007. There are no published estimates on the size of our other major revenue source, private label nutrition, fitness and wellness programs; however, we believe that this market is in the low eight figures and growing rapidly.

Marketing

Our total advertising spending in 2006 was $25.1 million, or 50% of revenues, and resulted in the acquisition of 298,000 paying subscribers. We currently pay to advertise our services through third party online banners, online paid and natural search programs, Web affiliate programs and cable television placements. In addition, we advertise on our Web sites and in our email newsletters. We estimate that the searched-based advertising and television advertising each were the source of more than 10% of our total new members. Over the last two years our cost to acquire members through banner advertisements on the major online portals has risen dramatically as a result of rapidly rising online advertising rates. We have responded by shifting an increasing percentage of our advertising budget to paid search programs.

Competition

In the online subscription diet business our most significant competitor is www.weightwatchers.com, which is owned by Weight Watchers® International. We also compete with privately-held Waterfront Media, Inc., which operates a variety of diet- and self-help-oriented Web sites, and with the WebMD® Weight Loss Center operated by WebMD, Inc. In the meal delivery business we compete with NutriSystem, Inc. and Jenny Craig, Inc. as well as others. In the business-to-business licensing of digital diet, fitness and healthy lifestyle content, tools and services we compete with Miavita, which is owned by Matria Healthcare, Inc., and with several private companies.

Dependence on Third Parties

We derive significant portions of our business from relationships with both third party Web sites and third party licensors. Beginning in April 2003 we began to offer online personalized meal plans based upon intellectual property licensed from third parties.

In addition, we depend on certain third party technology vendors for the day-to-day smooth operation and availability of our Web site and services. We have designed our infrastructure to provide reliability and scalability as it supports our operations. Our data centers are located within two secure tier 1 collocation facilities in Sterling, Virginia and Miami, Florida. The facilities provide us with:

- ready access to increased network bandwidth;

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- improved redundancy, security, and disaster recovery; and

- 24-hour onsite management and support.

Although the facilities provide us with increased security and reliability, there can be no assurance that we will not experience an interruption in service. During 2006, our site was operating 99.7% of the time. To the extent that service is interrupted or delayed, we could experience a decrease in traffic, loss of customers and harm to our reputation. However, we believe that we could secure alternate technology infrastructure vendors rapidly.

INTELLECTUAL PROPERTY, PROPRIETARY RIGHTS AND DOMAIN NAMES

Our success depends on the goodwill associated with our trademarks and other proprietary intellectual property rights.

We attempt to protect our intellectual property and proprietary rights through a combination of trademark, copyright and patent law, trade secret protection and confidentiality agreements with our employees and marketing and advertising partners. We pursue the registration of our domain names, trademarks and service marks and patents in the United States and abroad. A substantial amount of uncertainty exists concerning the application of the intellectual property laws to the Internet and there can be no assurance that existing laws provide adequate protection of our proprietary intellectual property or our domain names. The steps we take to protect our proprietary rights may not be adequate and third parties may infringe or misappropriate our copyrights, trademarks, service marks and similar proprietary rights.

GOVERNMENT REGULATION

There is an increasing number of laws and regulations being promulgated by the United States governments, governments of individual states and governments overseas that pertain to the Internet and doing business online. In addition, a number of legislative and regulatory proposals are under consideration by federal, state, local and foreign governments and agencies. Laws or regulations have been or may be adopted with respect to the Internet relating to:

- liability for information retrieved from or transmitted over the Internet;

- online content regulation;

- commercial e-mail;

- visitor privacy; and

- taxation and quality of products and services.

Moreover, the applicability to the Internet of existing laws governing issues such as:

- intellectual property ownership and infringement;

- consumer protection;

- obscenity;

- defamation;
- employment and labor;
- the protection of minors;
- health information; and
- personal privacy and the use of personally identifiable information.

This area is uncertain and developing. Any new legislation or regulation or the application or interpretation of existing laws may have an adverse effect on our business. Even if our activities are not restricted by any new legislation, the cost of compliance may become burdensome, especially as different jurisdictions adopt different approaches to regulation.

LIABILITY FOR INFORMATION RETRIEVED FROM OUR WEBSITE AND FROM THE INTERNET

Content may be accessed on our Web site and this content may be downloaded by visitors and subsequently transmitted to others over the Internet. This could result in claims made against us based on a variety of theories, including, but not limited to, tort, contract and intellectual property violations. We could also be exposed to liability with respect to content that may be posted by visitors to our chat rooms or bulletin boards. It is also possible that if any information contains errors or false or misleading information or statements, third parties could make claims against us for losses incurred in reliance upon such information. In addition, we may be subject to claims alleging that, by directly or indirectly providing links to other Web sites, we are liable in tort, contract or intellectual property, for the wrongful actions of third party Web site operators. The Communications Decency Act of 1996, as amended, provides that, under certain circumstances, a provider of Internet services shall not be treated as a publisher or speaker of any information provided by a third-party content provider. This safe harbor has been interpreted to exempt certain activities of providers of Internet services. Our activities may prevent us from being able to take advantage of this safe harbor provision. Any claims brought against us in this respect may have a material and adverse effect on our business.

PRIVACY CONCERNS

The Federal Trade Commission (FTC) has adopted regulations and guidelines regarding the collection and use of personally identifiable consumer information obtained from individuals when accessing Web sites, with particular emphasis on access by minors. Such regulations include requirements that companies establish certain procedures to, among other things:

- give adequate notice to consumers regarding the type of information collected and disclosure practices;
- provide consumers with the ability to have personally identifiable information deleted from a company s database;
- provide consumers with access to their personal information and with the ability to rectify inaccurate information;
- notify consumers of changes to policy and procedure for the use of personably identifiable information;
- clearly identify affiliations with third parties that may collect information or sponsor activities on a company s Web site; and
- obtain express parental consent prior to collecting and using personal identifying information obtained from children under 13 years of age.

These regulations also include enforcement and redress provisions. We have implemented and intend to continue to implement programs designed to enhance the protection of the privacy of our visitors and comply with these regulations. However, the FTC s regulatory and enforcement efforts may adversely affect our ability to collect personal information from visitors and customers and therefore limit our marketing efforts.

TRADE PRACTICES REGULATIONS

The FTC and certain states regulatory authorities regulate advertising and consumer matters such as unfair and deceptive trade practices. The FTC has recently renewed its focus on claims made in weight-loss advertisements, announcing for example in December 2003 an education campaign to assist media in voluntarily screening out weight-loss product advertisements containing claims that are too good to be true. In addition, the state of Florida, where our corporate offices are located, regulates certain marketing and disclosure requirements for weight loss providers. The nature of our interactive Internet activities may subject us to similar legislation in a number of other states. Although we intend to conduct our operations in compliance with applicable regulatory requirements and continually review our operations to verify compliance, we cannot ensure that aspects of our operations will not be reviewed and challenged by the regulatory authorities and that if challenged that we would prevail. Furthermore, we cannot ensure that new laws or regulations governing weight loss and nutrition services providers will not be enacted, or existing laws or regulations interpreted or implied in the future in such way as to cause harm to our business.

In addition, while we receive most of our revenue from membership subscriptions, we also rely at least in part on advertising revenue. Many of these advertisements are weight-loss related. Any regulations or enforcement actions that adversely affect the companies which advertise on our Web site may indirectly have an adverse effect on us through either lower advertising budgets at those companies, redirected marketing campaigns or restrictions on the type of advertisements that these companies run.

COMMERCIAL E-MAIL REGULATION

As an Internet-based company, we rely largely on online advertising and e-mail in our marketing efforts. The use of e-mail advertising may become less effective in the future for a number of reasons. Some of these reasons are regulatory, as legislators attempt to address problems related to perceived deceptive practices in unsolicited bulk e-mails. For example, the federal CAN-SPAM Act of 2003, which became effective January 1, 2004, places requirements on certain commercial e-mail activity relating to, among other things, making conspicuous and effective opt-out procedures available to the recipient and the identification and location of the sender. We have implemented procedures to ensure compliance with the federal CAN-SPAM Act of 2003, but future legislation or regulatory developments under existing laws may have a negative impact on our ability to advertise by e-mail. E-mail advertising also may become less effective in the future for non-regulatory reasons, including the sheer volume of unsolicited e-mail being received, increased use of white lists through which only pre-approved sender addresses are not filtered, and other e-mail filtering systems which may become more robust in response to recent viruses and worms circulating on the Internet.

Furthermore, we cannot provide any assurance that future regulation of commercial e-mail will not also impose significant costs or restrictions on even subscriber-based or opt-in e-mail services such as our newsletter service. As part of the public debate on commercial e-mail regulations, for example, some have advocated an electronic stamp program applicable to commercial e-mail generally, and it is unclear what exceptions, if any, there would be under such a program for a periodic newsletter service such as ours if such a program were passed as legislation.

REGULATION BY OTHER JURISDICTIONS

Due to the global nature of the Internet, it is possible that, although transmissions by us over the Internet originate primarily in the United States, the governments of other foreign countries might attempt to regulate our transmissions or prosecute us for violations of their laws. These laws may be modified, or new laws enacted, in the future. We may unintentionally violate these laws to the extent that our transmissions are sent to or made available in these jurisdictions. Like domestic regulations that may apply to our activities, even if compliance is possible the cost of compliance may be burdensome. Any of these developments could cause our business to suffer. In addition, as our service is available over the Internet in multiple states and foreign countries, these jurisdictions may claim that we are required to qualify to do business as a foreign corporation in each state or foreign country. We have not qualified to do business as a foreign corporation in any jurisdiction, except Florida. This failure by us to qualify as a foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties and could result in our inability to enforce contracts in such jurisdictions.

Company Information

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

Information contained on our web site, or on any other web site mentioned in this Annual Report, is not incorporated by reference in this Annual Report and does not constitute a part of this Annual Report.

General Development of the Business

The predecessor to eDiets was incorporated in the State of Delaware in March 1996 under the name Self-help Technologies, Inc. The Company s mission was, and remains, to provide solutions that help individuals to realize their full potential. Initially, the product developed and promoted was personalized diet programs for direct to consumer sales at in-store locations such as grocery stores. However, we quickly shifted our promotional strategy to online direct to consumer sales as consumer acceptance and usage of the Internet began to accelerate.

Much of 1996 and 1997 were spent in developing a software platform that facilitates the production of individualized meal plans and shopping lists using a specific mathematical algorithm, which takes into account such criteria as the user s physical condition, proclivity to exercise, food preferences, cooking preferences, desire to use pre-packaged meals or dine out, among others.

We sold our first online diet program in 1998 and continued to market memberships through modest online advertising arrangements with several leading Internet portals throughout 1998 and 1999. These advertising arrangements were enhanced in February 1999 when our founder and then Chief Executive Officer, David Humble, completed the development of software that measures consumer response to marketing, pricing and other elements of a direct marketing campaign. Mr. Humble has granted the Company a perpetual royalty-free license for this technology for use in the scope of its current business.

In November 1999 eDiets merged into a newly-created, wholly-owned subsidiary of Olas, Inc., a publicly-traded company of which substantially all of the operating assets had been sold in 1995. Olas, Inc. then changed its name to eDiets.com, Inc. Following the merger, in November and December 1999 eDiets completed a private placement of common stock and warrants that generated approximately $6.3 million in net proceeds to the Company. Beginning in early 2000, we primarily used the proceeds from this financing to fund online advertising expenditures that significantly increased in the Company s base of paying subscribers.

Since 2003, we have undertaken a unique strategy to obtain exclusive licenses for the intellectual property associated with a variety of third party nutrition and fitness approaches and to offer personalized versions of these approaches in addition to our own internally-developed plans all at one web location.

In 2006, we started to diversify our revenue streams by entering the business-to-business nutrition space with the acquisition of Nutrio and also with our launch of a nationwide fresh meal delivery service.

Revenue and Related Expense Recognition: Membership fees are billed in advance and in almost all cases are charged to the subscriber s credit card, resulting in immediate subscription cash flow to the Company. However, under United States Generally Accepted Accounting Principles (GAAP), various portions of these fees are recognized ratably over the period being charged. Subscription cycles average 6 months, depending on the price terms offered. The difference between cash fees received and the portion previously recognized is reflected in deferred revenues in our balance sheet; the majority of these revenues are expected to be recognized within the next fiscal quarter.

There are timing differences between when we receive subscription revenues and when we pay the associated online advertising expense, and these differences result in both negative cash flow and negative profitability under GAAP during the early part of a subscription cycle (a cycle is defined as the initial membership period plus any subsequent successive renewals). As a result, we may report losses under GAAP and negative cash flow from operations during periods when we are aggressively building or replacing our membership base. The difference between cash flows and GAAP accounting associated with customer acquisition is illustrated below.

Cash Flow	**GAAP Accounting**
Cash for initial subscription period received and advertising payment paid at time of sale of the subscription; additional subscription fees received with each renewal period	Revenue recognized ratably; advertising expensed upon airing early part of subscription cycle shows GAAP loss, later part of cycle shows GAAP profit cumulative profit or loss is the same as cash flow

Seasonality: We typically experience our weakest click-through and conversion rates during our fiscal fourth quarter due to the November-December holiday season, and we moderate our advertising expenditures accordingly.

ITEM 2. PROPERTIES

In aggregate, we employ 108 employees, who operate out of three leased facilities totaling 27,000 square feet in Fort Lauderdale, Florida that are due to expire at various times through 2016. The aggregate current monthly rental, including lessor leasehold improvements repayment obligations and pro-rated share of common area facilities expenses, is approximately $60,000.

ITEM 3. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock commenced trades on the Nasdaq Capital Market under the symbol DIET . The following table sets forth the high and the low bid quotations for the common stock as quoted on the Nasdaq Capital Market for the periods indicated. Such information reflects inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

	LOW BID	HIGH BID
YEAR ENDED DECEMBER 31, 2006:		
Fourth quarter	$ 2.84	$ 4.33
Third quarter	$ 3.01	$ 5.10
Second quarter	$ 4.39	$ 6.48
First quarter	$ 4.75	$ 8.60
YEAR ENDED DECEMBER 31, 2005:		
Fourth quarter	$ 3.96	$ 6.41
Third quarter	$ 3.35	$ 5.23
Second quarter	$ 3.10	$ 4.25
First quarter	$ 2.90	$ 5.40

As of March 20, 2007, there were approximately 114 holders of record of our common stock. This number does not include the number of persons whose stock is held in nominee or street name accounts through brokers.

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

ITEM 6. SELECTED FINANCIAL DATA

The following table summarizes certain selected consolidated financial data of the Company as of, and for each of the years in the three-year period ended December 31, 2006. The selected consolidated financial data has been derived from our audited Consolidated Financial Statements. The selected consolidated financial data should be read in conjunction with our Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and Notes included in this Annual Report.

	YEAR ENDED DECEMBER 31, (in thousands, except per share data)				
	2006	2005	2004	2003	2002
Consolidated Statement of Operations Data:					
Continuing Operations:					
Revenue	$ 48,814	$ 52,629	$ 45,161	$ 38,332	$ 29,628
Costs and Expenses:					
Cost of revenue	9,622	7,459	6,791	5,108	3,146
Technology and development	3,203	2,373	2,732	1,638	1,525
Sales, marketing and support	30,445	35,035	40,389	28,363	18,014
General and administrative	8,549	5,575	4,831	4,502	4,734
Amortization of intangible assets	760	44	36	517	664
Impairment of intangible assets			54	183	
Total costs and expenses	52,579	50,486	54,833	40,311	28,083
(Loss) income from operations	(3,765)	2,143	(9,672)	(1,979)	1,545
Other income (expense), net	184	156	115	13	(172)

(Loss) income before income tax (provision) benefit	(3,581)	2,299	(9,557)	(1,966)	1,373
Income tax (provision) benefit	(66)	(9)	27	258	251
Net (loss) income from continuing operations	(3,647)	2,290	(9,530)	(1,708)	1,624

	2006	2005	2004	2003	2002
	YEAR ENDED DECEMBER 31, (in thousands, except per share data)				
Discontinued Operations:					
Loss from operations, net of tax	(412)	(954)	(373)		
Loss on disposal, net of tax	(41)				
Loss from discontinued operations, net of tax	(453)	(954)	(373)		
Net (loss) income	$ (4,100)	$ 1,336	$ (9,903)	$ (1,708)	$ 1,624
Per Share Data:					
Basic (loss) earnings loss per common share:					
(Loss) income from continuing operations	$ (0.16)	$ 0.10	$ (0.47)	$ (0.10)	$ 0.10
(Loss) from discontinued operations	(0.02)	(0.04)	(0.02)		
Net (loss) income	$ (0.18)	$ 0.06	$ (0.49)	$ (0.10)	$ 0.10
Diluted (loss) earnings loss per common share:					
(Loss) income from continuing operations	$ (0.16)	$ 0.10	$ (0.47)	$ (0.10)	$ 0.09
(Loss) from discontinued operations	(0.02)	(0.04)	(0.02)		
Net (loss) income	$ (0.18)	$ 0.06	$ (0.49)	$ (0.10)	$ 0.09
Weighted average common and common equivalent shares outstanding:					
Basic	23,421	21,524	20,091	16,675	15,730
Diluted	23,421	22,428	20,091	16,675	17,132

	2006	2005	2004	2003	2002
	YEAR ENDED DECEMBER 31, (in thousands)				
Consolidated Statement of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	$ (3,151)	$ (245)	$ (7,834)	$ 2,917	$ 2,670
Investing activities	(10,609)	(718)	2,266	(677)	(647)
Financing activities	11,010	768	8,348	1,679	(1,721)

	2006	2005	2004	2003	2002
	DECEMBER 31, (in thousands)				
Consolidated Balance Sheet Data:					
Total assets	$ 27,544	$ 20,611	$ 20,140	$ 14,143	$ 12,574
Long-term debt (excluding capital lease obligations)				2	504
Stockholders equity	16,196	7,625	5,296	5,950	5,286

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITON AND RESULTS OF OPERATIONS RESULTS OF OPERATIONS

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

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
Revenue	100%	100%	100%
Cost of revenue	20	14	15
Technology and development	7	5	6
Sales, marketing and support	62	67	89
General and administrative	18	11	11
Amortization of intangible assets	2	*	*
Impairment of intangible assets			*
Other (expense) income, net	*	*	*
Income tax (provision) benefit	*	*	*
Loss from discontinued operations	(1)	(2)	(1)
Net (loss) income	(8)%	3%	(22)%

* Less than 1%

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2005

Revenue: Total revenue for the year ended December 31, 2006 was $48.8 million, a decrease of 7% versus the $52.6 million recorded for the year ended December 31, 2005.

Subscription or membership revenue was $38.0 million (78% of total revenue) in 2006 and $45.2 million (86% of total revenue) in the prior year period. The decrease in subscription or membership revenue was due to a smaller base of paying members during the year partially offset by higher weekly fees paid by subscribers. The paying member base as of December 31, 2006 was approximately 118,000 compared to 190,000 a year ago with the decline due to lower advertising spending used to acquire members in the current year compared to 2005. As a result of a smaller paying base entering 2007 compared to 2006, the Company expects 2007 subscription revenue to decline from current levels.

All other revenue sources totaled $10.8 million (22% of total revenue) in 2006 and $7.4 million (14% of total revenue) in the prior year. Other revenues for 2006 include:

$3.2 million of meal delivery revenue, including shipping revenue (commenced in January 2006)

$1.6 million of business-to-business revenue (commenced in May 2006 via the Nutrio acquisition)

$3.8 million of revenue from the sale of advertising on our web sites and in our newsletters

$1.3 million from all other sources such as commissions and other ecommerce sales

$0.9 million in royalty revenue

As the Company s revenue streams continue to become more diversified it expects non-subscription or other revenues to continue to become a larger share of total revenue.

At December 31, 2006, deferred revenue totaled $4.4 million as compared to $4.8 million as of December 31, 2005. Deferred revenue includes $2.0 million and $2.7 million related to prepayment of services by subscribers as of December 31, 2006 and 2005, respectively, while $2.1

million and $2.1 million as of December 31, 2006 and 2005, respectively, relate to non-refundable royalties received under our 15 year licensing agreement with Tesco for operations in the United Kingdom and Ireland.

Cost of Revenue: Cost of revenue consists primarily of product costs, revenue sharing and credit card fees. Other costs include Internet access fees, compensation for nutritional and consulting professionals and depreciation. Cost of revenue increased to $9.6 million or 20% of revenues for the year ended December 31, 2006 as compared to $7.5 million or 14% of revenues for the prior year. Gross margin as a percent of revenue for 2006 decreased to 80% compared to 86% for 2005. The decrease in gross margin is primarily attributable to the launch of a meal delivery program and related product costs in January 2006. In the future we anticipate our gross margin will decline as meal delivery revenue becomes a larger share of total revenue.

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 $3.2 million for 2006 as compared to $2.4 million in 2005 with the increase mainly due to additional personnel and related costs, including Nutrio which was acquired in May.

Sales, Marketing and Support Expense: Sales, marketing and support expenses consist primarily of Internet advertising expenses and compensation for employees in those departments related to promoting the U.S. business-to-consumer segment. Expenses were $30.4 million in 2006 compared to $35.0 million in 2005 with the decrease primarily attributable to less spending for advertising media. In total, advertising media expense was $25.1 million for 2006 and $28.1 million for 2005. The Company expects 2007 advertising media expense for its U.S. business-to-consumer segment to decline from current levels.

General and Administrative Expenses: General and administrative expenses consist primarily of salaries, overhead and related costs for general corporate functions, including professional fees. General and administrative expenses were $8.6 million in 2006 compared to $5.6 million for 2005. The increase was mainly due to:

- $0.8 million of non-cash charges related to the January 2006 adoption of SFAS 123R,
- $0.7 million of non-recurring charges related to the severance arrangement with our former Chief Executive Officer,
- $0.3 million in external costs associated with our Sarbanes-Oxley compliance initiatives including consulting fees and additional personnel and related costs.

Amortization of Intangible Assets: Amortization expense increased to $0.8 million in 2006 compared to $44,000 in 2005. The increase in expense was related to amortization for the intangible assets recorded in the May 2006 acquisition of Nutrio.

Other Income, net: Other income, net, mainly includes interest income and interest expense. We recorded other income, net of $0.2 million in each of the years ended December 31, 2006 and 2005, respectively.

Income Tax (Provision) Benefit: Income tax provision of $(0.1) million for 2006 primarily relates to the operations of eDiets Europe. In the prior year an insignificant provision was required.

Loss from Discontinued Operations: Loss from discontinued operations was $(0.5) million for 2006 compared to $(1.0) million in 2005. The loss from discontinued operations relates to the September 2006 ownership transfer of the German, Spanish and Portuguese websites to a third party in exchange for an ongoing royalty on future subscriptions and advertising revenues.

Net (Loss) Income: As a result of the factors discussed above, we recorded a net loss of $(4.1) million in 2006 compared to net income of $1.3 million for 2005.

COMPARISON OF YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

Revenue: Our revenue for the year ended December 31, 2005 was $52.6 million as compared to $45.2 million for the year ended December 31, 2004. The 17% increase in revenue was mainly due to increases in subscription revenues and advertising revenues.

Subscription revenue totaled approximately $45.2 million for the year ended December 31, 2005, an increase of 16% over membership revenue of $39.0 million in the prior year. The dollar increase in membership revenue was due to a combination of a higher average paying subscriber base throughout the year combined with higher average weekly fees paid by members. Paying members as of December 31, 2005 were approximately 190,000 compared to 192,000 as of December 31, 2004.

Other revenues, consisting primarily of advertising revenue, commission revenue and e-commerce revenue, totaled approximately $7.4 million and $6.2 million for the years ended December 31, 2005 and 2004, respectively.

As of December 31, 2005, we had deferred revenue of $4.8 million relating to payments for which services had not yet been provided, compared to $5.8 million as of December 31, 2004. Deferred revenue as of December 31, 2005 includes $2.1 million of non-refundable fees received in July 2004 under a 15-year exclusive technology licensing agreement related to the Company s operations in the United Kingdom and Ireland. The remaining $2.7 million of deferred revenue as of December 31, 2005 related to subscription fees prepaid by members. This balance fluctuates depending on the amount of prepayment required by us under our various subscription plans.

Cost of Revenue: Cost of revenue consists primarily of credit card fees and revenue sharing or royalty costs. Other costs include Internet access fees, compensation for nutritional and consulting professionals and product and fulfillment costs for e-commerce sales. Cost of revenue increased to $7.5 million or 14% of revenues for the year ended December 31, 2005 from $6.8 million or 15% of revenues for the year ended December 31, 2004. The dollar increase of 10% year over year was primarily due to an increase of royalty payments under the exclusive license agreements with third party nutritional and fitness companies due to the higher subscription revenues.

Technology and Development: Technology and development costs consist primarily of salary payments to our development staff and related expenditures for technology and software development. These expenses were $2.4 million and $2.7 million or 5% and 6% of revenues for the years ended December 31, 2005 and 2004, respectively.

Sales, Marketing and Support Expense: Sales and marketing expenses consist primarily of Internet and television advertising expenses and compensation for employees in sales and marketing, editorial and customer services groups. Due to seasonality involved in the diet services business we traditionally experience higher sales and marketing expenses in the first half of the year versus the second half of the year. These expenses decreased to $35.0 million or 67% of revenues for the year ended December 31, 2005 from $40.4 million or 89% of revenues for the year ended December 31, 2004. The dollar decrease in sales and marketing expenses of 13% year over year was mainly due to the elimination of certain unproductive online advertising agreements. Advertising expense totaled $28.1 million in fiscal 2005, a decrease of 13% over advertising expense of $32.3 million in the prior year.

We expect rates in the online advertising market to continue to increase in 2006. This trend could significantly impact our ability to place the amount of advertising required to aggressively grow our member base. We are in the process of developing alternative channels of customer acquisition, such as television advertising, and alternative revenue channels, such as e-commerce, advertising, and licensing.

General and Administrative Expense: General and administrative expenses consist primarily of salaries, overhead and related costs for general corporate functions, including professional fees. General and administrative expenses increased to $5.6 million or 11% of revenues for the year ended December 31, 2005 from $4.8 million or 11% of revenues for the year ended December 31, 2004. The dollar increase of 15% year over year was primarily due to the result of increases in professional fees and general overhead.

Amortization of Intangible Assets: Amortization expense was $44,000 and $36,000 for the years ended December 31, 2005 and 2004, respectively.

Impairment of Intangible Assets: During the first quarter of 2004, we shut down the DietSmart, Inc. (DietSmart) website and commenced the process of encouraging the remaining DietSmart members to convert to eDiets memberships. As a result of shutting down the website, we recorded an impairment charge in our Consolidated Statement of Operations for the year ended December 31, 2004 of approximately $54,000 related to the developed technology and trademarks and trade names intangibles.

Other Income, net: Other income, net which consists of interest income, interest expense and loss on disposal of fixed assets, was $0.2 million and $0.1 million for the years ended December 31, 2005 and 2004, respectively.

Income Tax (Provision) Benefit: An insignificant (provision) benefit was recorded in 2005 and 2004. We expect to be able to offset substantially all taxable income for at least the next fiscal year with available net operating loss carry-forwards from prior years.

Loss from Discontinued Operations: Loss from discontinued operations was $(1.0) million for 2005 compared to $(0.4) million in 2004. The loss from discontinued operations relates to the September 2006 ownership transfer of the German, Spanish and Portuguese websites to a third party in exchange for an ongoing royalty on future subscriptions and advertising revenues.

Net Income (Loss): As a result of the factors discussed above, we recorded net income of $1.3 million for the year ended December 31, 2005 compared to a net loss of $(9.9) million for the year ended December 31, 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities: During 2006, we used $(3.2) million of cash in operating activities, including $(0.5) million used in discontinued operations. The remaining negative cash flow related to our net loss from continuing operations of $(3.6) million, adjusted for certain non-cash items of $3.5 million offset by an aggregate decrease in cash flows from our operating assets and liabilities of $(2.6) million.

During 2005, we used $(0.2) million of cash in operating activities, including $(1.0) million used in discontinued operations. The remaining cash flow related to our net income from continuing operations of $2.3 million, adjusted for certain non-cash items of $1.0 million offset by an aggregate decrease in cash flows from our operating assets and liabilities of $(2.6) million.

Cash Flows from Investing Activities: During 2006 we used $(10.6) million of cash in investing activities. The cash usage was primarily due to the acquisition of Nutrio in May 2006 for $(9.0) million, increases in restricted cash of $(0.5) million and purchases of computer equipment, software development costs and leasehold improvements of $(1.1) million.

During 2005 we used $(0.7) million of cash in investing activities related to the purchase of computer equipment and software development costs.

Cash Flows from Financing Activities: Our financing activities provided $11.0 million of cash in 2006. In 2006 we received $10.0 million of proceeds from the issuance of common stock to Prides Capital and $2.3 million in proceeds from the exercise of stock options. Also in 2006, we paid $1.0 million of common stock issuance costs and $0.3 million of capital lease obligations.

The $0.8 million of cash provided by financing activities in 2005 was attributable to $1.0 million in proceeds from the exercise of stock options, offset by repayment of capital lease obligations of $(0.2) million.

Available Cash: At December 31, 2006, we had $6.0 million of unrestricted cash and cash equivalents compared to $8.6 million of unrestricted cash and cash equivalents at December 31, 2005. Management believes that cash on hand and cash flows from operations will be sufficient to fund our working capital and capital expenditures for at least the next twelve months. To the extent we require additional funds to support our operations or the expansion of our business, we may seek to undertake additional equity financing. There can be no assurance that additional financing, if required, will be available to us in amounts or on terms acceptable to us or at all.

Contractual Obligations: The following summarizes future cash outflow related to our non-cancelable contractual obligations at December 31, 2006 (in thousands):

	Total	Less than 1 year	1-3 years	After 3 years
Contractual obligations:				
Capital lease obligations	$ 384	$ 237	$ 147	$
Operating leases	6,813	717	1,636	4,460
Advertising	420	420		
Total contractual cash obligations	$ 7,617	$ 1,374	$ 1,783	$ 4,460

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. Note that our preparation of the financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

REVENUE RECOGNITION:

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

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

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

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

Meal delivery revenue is recognized when the earnings process is complete, which is upon transfer of title of the product. This transfer occurs upon shipment from the Company s fulfillment center to the end-customer. Meal delivery revenue includes amounts billed for shipping. In accordance with EITF 99-19, we recognize gross meal delivery revenues based on the relevant fact that we are the primary obligor and have assumed asset risk before the customers place any orders.

Business to business revenue relates to the Nutrio subsidiary. Nutrio 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 its 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.

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

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

Royalty revenue is derived from the 15-year exclusive technology licensing agreement related to the Company s operations in the United Kingdom and Ireland and is being recognized on a straight-line basis over the term of the agreement, as well as an ongoing royalty agreement on future subscriptions and advertising revenue derived from the ownership transfer of the German, Spanish and Portuguese websites.

GOODWILL AND INTANGIBLE ASSETS:

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

We use judgment in assessing goodwill for impairment. Goodwill is reviewed annually for impairment, or sooner if events or changes in circumstances indicate that the carrying amount could exceed fair value. Fair value of the Company s reporting units is based on discounted cash flows using a discount rate determined by our management to be consistent with industry discount rates and the risks inherent in our current business model. No impairment charges have been recorded to date as a result of our annual impairment tests. Due to uncertain market conditions and potential changes in our strategy and product portfolio, it is possible that the forecasts we use to support our goodwill could change in the future, and could result in non-cash charges that would adversely affect our results of operations and financial condition.

At December 31, 2006 we had $13.6 million in goodwill. Approximately $6.8 million of goodwill was recorded as a result of the May 2006 acquisition of Nutrio. Approximately $1.6 million of goodwill was recorded as a result of the July 2004 acquisition of eDiets Europe with the remaining $5.2 million of goodwill related to the U.S. business-to-consumer reporting unit.

ACCOUNTING FOR EMPLOYEE STOCK-BASED COMPENSATION:

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

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

ACCOUNTING FOR INCOME TAXES:

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

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We have recorded a full valuation allowance as of December 31, 2006, due to uncertainties related to our ability to utilize our deferred tax assets, primarily consisting of certain net operating losses carried forward, before they expire. The valuation allowance is based on our estimates of taxable income and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could materially impact our financial position and results of operations.

CERTAIN FACTORS WHICH MAY AFFECT FUTURE RESULTS

In addition to other information in this report, the following factors should be considered in evaluating our condition and prospects. These factors may have a significant impact on our future operating results.

We depend on several Internet sites to attract users to our website, and our business could suffer if our advertising is discontinued on these sites.

A significant portion of our online traffic has come, and we believe will continue to come, from agreements with Internet sites that expire at various times in 2007 and beyond. Advertising rates on these sites have accelerated markedly in recent years. This acceleration has presented a challenge for us to obtain customers through these sites on a profitable basis. Moreover, we expect our current agreements with these sites to be renewed at terms and conditions at least as costly as those that are expiring. If our advertising is discontinued for any reason on the sites on which we currently advertise, our business could suffer.

As the largest stockholder, Prides Capital has significant influence over our company.

Prides Capital will own approximately 43% of our outstanding voting common stock in the event all warrants are exercised. Therefore, as a practical matter, Prides Capital will have significant influence over the outcome of any shareholder vote, including the election of directors and the approval of mergers or other business combination transactions. Additionally, concentration of control in one stockholder may discourage potential investors from providing additional financing if we need it. The Company Purchase Agreement also affords Prides Capital certain participation rights and anti-dilution protections which could make it more difficult for us to obtain additional financing or to effect a merger or other business combination transaction. In addition, under the terms of the Company Purchase Agreement, as long as Prides Capital owns at least 5% of our outstanding common stock, the following require the approval of a majority vote of our board of directors, which majority must include at least one Prides Capital director:

- authorize, create, designate, establish or issue any other class or series of capital stock ranking senior to our capital stock as to dividends or upon liquidation, or reclassification of any shares of our capital stock into shares having any preference or priority as to dividends or upon liquidation superior to any such preference or priority of our common stock;

- adopt a plan for the liquidation, dissolution or winding up of the affairs of our company or any recapitalization plans;

- amend, alter or repeal, whether by merger, consolidation or otherwise our Certificate of Incorporation;

- alter or change the rights, preferences or privileges of our common stock or the warrants issued to Prides Capital; or

- directly or indirectly, declare or pay any dividend (other than dividends payable in shares of our common stock) or directly or indirectly purchase, redeem, purchase or otherwise acquire any share of our common stock (except for shares of our common stock repurchased from current or former employees, consultants, or directors upon termination of service in accordance with plans approved by our board of directors (whether in cash, securities or property or in our obligations).

We rely on qualified, key executive management personnel.

The success of our business will also depend on our ability to hire and retain additional qualified key executive management personnel, particularly in the marketing, administrative and financial areas. Competition for qualified personnel in the Internet industry is intense. If we are unable to attract and retain additional qualified personnel, our business could suffer.

We can t be certain that additional financing will be available to us on acceptable terms if we need it.

We believe that cash on hand and cash flows from operations will be sufficient to meet our anticipated capital needs through at least the next 12 months. However, due to unforeseen circumstances, unanticipated changes in our plans or other factors beyond our control, we may require additional financing. Our business could suffer if financing is not available when we may require it or if it is only available on unfavorable terms.

Because of our limited operating history we may fail to manage our expansion and expected growth effectively, which could strain our resources and could impair the expansion of our business.

Although we have continued to grow our revenues, a failure to manage our growth effectively could adversely affect our ability to attract and retain our members and advertising partners. We have increased the scope of our operations, including our technology, sales, administrative and marketing organizations. These factors have placed, and will continue to place, a significant strain on our management systems and resources. We will need to continue to improve our operational, financial and managerial controls and reporting systems and procedures to expand, train and manage our workforce in order to manage our expected growth.

We face significant competition.

In addition to Weight Watchers® International, Inc., Waterfront Media, Inc. and NutriSystem, Inc. we currently compete with several Internet sites which provide diet and nutrition information, including WeightWatchers.com. We know of several other online competitors aggressively marketing online programs which may be somewhat similar to ours, including some that are offered at no charge to the customer.

Increased competition and a proliferation of free online diet plans could result in reductions in the prices we receive for our programs, lower margins, loss of customers and reduced visitor traffic to our Web site.

Several of our existing competitors and potential competitors have longer operating histories, greater name recognition and significantly greater financial, technical and marketing resources and may be able to devote greater resources for the development and promotion of their services and products. These competitors may also engage in more extensive marketing and advertising efforts, adopt more aggressive pricing policies and make more attractive offers to advertisers and alliance partners. Accordingly, we may not be able to compete successfully.

Because of volatility in the advertising markets which we target, we may not be able to effectively attract and retain members.

We are currently dependent in large part on the online advertising market to attract and retain members to our subscription products, which account for approximately 78% of our total revenue. We expect the online advertising market to continue to be subject to higher costs, thereby significantly impacting our costs to acquire and retain members. Although we are currently developing alternative channels of customer acquisition, including television, print and radio advertising, there can be no assurance that these measures will as effectively attract and retain members as have our online advertising programs in the past.

We depend heavily on our network infrastructure and its failure could result in unanticipated expenses and prevent our members from effectively utilizing our services, which could negatively impact our ability to attract and retain members and advertisers.

Our ability to successfully create and deliver our content depends in large part on the capacity, reliability and security of our networking hardware, software and telecommunications infrastructure. Failures of our network infrastructure could result in unanticipated expenses to address such failures and could prevent our members from effectively utilizing our services, which could prevent us from retaining and attracting members and advertisers. The hardware infrastructures on which our system operates are located in Sterling, Virginia and Miami, Florida. We do not currently have a formal disaster recovery plan. Our system is susceptible to natural and man-made disasters, including war, terrorism, earthquakes, fires, floods, power loss and vandalism. Further, telecommunications failures, computer viruses, electronic break-ins or other similar disruptive problems could adversely affect the operation of our systems. Our insurance policies may not adequately compensate us for any losses that may occur due to any damages or interruptions in our systems. Accordingly, we could incur capital expenditures in the event of unanticipated damage.

In addition, our members depend on Internet service providers, or ISPs, for access to our Web site. In the past, ISPs and Web sites have experienced significant system failures and could, in the future, experience outages, delays and other difficulties due to system failures unrelated to our systems. These problems could harm our business by preventing our members from effectively utilizing our services.

The unauthorized access of confidential member information that we transmit over public networks could adversely affect our ability to attract and retain members.

Our members transmit confidential information to us over public networks, and the unauthorized access of such information by third parties could harm our reputation and significantly hinder our efforts to attract and retain members. We rely on a variety of security techniques and authentication technology licensed from third parties to provide the security and authentication technology to effect secure transmission of confidential information, including customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology we use to protect customer transaction data and adversely affect our ability to attract and retain customers.

Problems with the performance and reliability of the Internet infrastructure could adversely affect the quality and reliability of the services we offer our members and advertisers.

We depend significantly on the Internet infrastructure to deliver attractive, reliable and timely e-mail messages to our members. If Internet usage grows, the Internet infrastructure may not be able to support the demands placed on it by this growth, and its performance and reliability may decline, which could adversely affect our ability to sustain revenue growth. Among other things, continued development of the Internet infrastructure will require a reliable network backbone with necessary speed, data capacity and security. Currently, there are regular failures of the Internet network infrastructure, including outages and delays, and the frequency of these failures may increase in the future. These failures may reduce the benefits of our services to our members and undermine our advertising partners and our members confidence in the Internet as a viable commercial medium. In addition, the Internet could lose its viability as a commercial medium due to delays in the development or adoption of new technology required to accommodate increased levels of Internet activity or due to government regulation. These factors could adversely affect our business by adversely affecting the quality and reliability of the services we offer our customers.

We may have to litigate to protect our rights or to defend claims brought against us by third parties, and such litigation may subject us to significant liability and be time consuming and expensive.

We face a substantial risk of litigation, including litigation regarding intellectual property rights in Internet-related businesses. Legal standards relating to the validity, enforceability and scope of protection of certain proprietary rights in Internet-related businesses are uncertain and still evolving. We may have to litigate in the future to enforce our intellectual property rights, protect our trade secrets or defend ourselves against claims of violating the proprietary rights of third parties.

We also face the risk of having to defend against lawsuits brought by third parties related to our business activities. For example, we depend heavily on Internet advertising, and we are currently involved in both civil litigation and administrative proceedings arising out of pop-up ads and other advertising practices, in both cases brought by one of our competitors. If the outcome of these proceedings, or similar proceedings that we may face in the future, were to make certain types of advertising unavailable to us, then our marketing may become less effective and our financial results could suffer.

Any of this type of litigation may subject us to significant liability for damages, result in invalidation of our proprietary rights, be time-consuming and expensive to defend, even if not meritorious, and result in the diversion of management time and attention. Any of these factors could adversely affect our business operations and financial results and condition.

Government regulation and legal uncertainties of doing business on the Internet could significantly increase our costs and expenses.

Laws and regulations that apply to Internet communications, commerce and advertising are becoming more prevalent and these laws and regulations could significantly increase the costs we incur in using the Internet to conduct our business. The United States Congress has recently enacted Internet legislation regarding children s privacy, commercial email, copyright and taxation. The European Union has recently adopted a directive addressing data privacy that may result in limits on the collection and use of member information. A number of other laws and regulations, including those at the state or local level, may be adopted that regulate the use of the Internet. These may include laws addressing user privacy, pricing, acceptable content, taxation, use of the telecommunications infrastructure, commercial email and quality of products and services. The laws governing the Internet remain largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws, including those governing intellectual property, privacy, libel and taxation apply to the Internet and Internet advertising. In addition, the growth and development of the market for Internet commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on companies conducting business over the Internet. As a result of these uncertainties, we may incur unanticipated, significant costs and expenses that could impact our financial results and condition.

The price of our common stock is likely to be volatile.

Our stock has closed at prices ranging from a high of $9.00 on February 13, 2004, to a low of $0.90 on May 6, 2003. If our revenues do not grow or grow more slowly than we anticipate, or if operating expenditures exceed our expectations or cannot be adjusted accordingly, the market price of our common stock could be materially and adversely affected. In addition, the

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market price of our common stock has been in the past, and could in the future, be materially and adversely affected for reasons unrelated to our specific business or results of operations. General market price declines or volatility in the future could adversely affect the price of our common stock. In addition, short-term trading strategies of certain investors can also have a significant effect on the price of specific securities.

The exercise of warrants or options may depress our stock price.

There are a significant number of warrants and options to purchase our common stock outstanding at prices ranging from $ .01 to $7.60 per share. Holders may sell the common stock acquired upon exercise of the warrants and options at a market price that exceeds the exercise price of the warrants and options paid by the holders. Sales of a substantial number of shares of common stock in the public market by holders of warrants or options may depress the prevailing market price for our common stock and could impair our ability to raise capital through the future sale of our equity securities.

We do not expect to pay dividends.

We have never paid any cash dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain any future earnings for use in the business. Therefore, you may not receive any return on an investment in our common stock in the form of dividends.

We have authorized but unissued preferred stock, which could affect rights of holders of our common stock.

Our certificate of incorporation authorizes the issuance of preferred stock with designations, rights and preferences determined from time to time by our board of directors. Accordingly, our board of directors is empowered, without shareholder approval, to issue preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of common stock. In addition, the preferred stock could be issued as a method of discouraging a takeover attempt. Although we do not intend to issue any preferred stock at this time, we may do so in the future.

We may enter into business combinations and strategic alliances which could be difficult to integrate and may disrupt our business.

We completed the Nutrio acquisition on May 18, 2006 and may continue to pursue expansion of our operations or market presence by entering into additional business combinations, investments, joint ventures or other strategic alliances with other companies. These transactions create risks such as:

- difficulty assimilating the operations, technology and personnel of the combined companies;
- disruption of our ongoing business;
- problems retaining key technical and managerial personnel;
- expenses associated with amortization of purchased intangible assets;
- additional operating losses and expenses of acquired businesses;
- responsibility for liabilities of acquired businesses; and
- impairment of relationships with existing employees, customers and business partners.

The Nutrio acquisition includes all of the risks outlined above and may lead to a reduction of operating income if we are not able to successfully integrate the customers, employees and products into our offerings.

We will need to keep pace with rapid technological change in the e-commerce and Internet subscription diet and wellness plan industries.

In order to remain competitive, we will be continually required to enhance and to improve the functionality and features of our subscription products and web site, which could require us to invest significant capital. If our competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing services, technology, and systems may become obsolete and we may not have the funds or technical know-how to upgrade our services, technology, and systems. We may face material delays in introducing new services, products, and enhancements. If such delays occur, our users may forego use of our services and select those of our competitors, in which event, our business, prospects, financial condition and results of operations could be materially adversely affected.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Interest Rate Risk

Our exposure to interest rate risk relates primarily to our investment portfolio. Investments are made in accordance with our investment policy and consist of high grade commercial paper. We do not use derivative financial instruments to hedge against interest rate risk as all investments are the form of held-to-maturity securities with an original maturity of three months or less. Due to the short-term nature of these financial instruments the interest rate risk is deemed to be low. We estimate that the cost of these financial instruments approximates fair value at December 31, 2006.

Foreign Currency Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Our financial statements, together with the report of Ernst & Young LLP, independent registered public accounting firm, appear at pages F-1 through F-26 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

ITEM 9A. CONTROLS AND PROCEDURES
Our President and Chief Financial Officer (the Certifying Officers) are responsible for establishing and maintaining disclosure controls and procedures which include controls and procedures that are designed to ensure that information required to be disclosed in the reports which we file with or submit to the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC. The Certifying Officers have evaluated these controls and procedures and have concluded (based upon their evaluation of these controls and procedures as of the end of the period covered by this report) that our disclosure controls and procedures are effective to: i) ensure that information required to be disclosed by us in this report is accumulated and communicated to management, including our principal executive officers as appropriate, to allow timely decisions regarding required disclosure; and ii) ensure that information required to be disclosed in the reports which we file or submit with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC.

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

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

ITEM 9B. OTHER INFORMATION

The Board of Directors changed the date for the 2007 annual meeting of the stockholders of the Company (the 2007 Annual Meeting) to August 21, 2007, pursuant to a Unanimous Written Consent dated as of March 14, 2007 (the Board Consent). The 2007 Annual Meeting will be held at 10:00 AM at the executive offices of the Company, which are located at 1000 Corporate Drive, Suite 600, Fort Lauderdale, FL 33334, subject to adjournment as provided in the By-laws of the Company, or at such other location as may be specified in the Proxy Statement for the 2007 Annual Meeting. This represents a change in the Company s recent past practice of holding its annual stockholder meetings in May. This change will permit the Company to comply in 2007 with new SEC rules permitting companies to solicit proxies for annual meetings by posting proxy materials on an internet website. The Board of Directors also designated June 25, 2007, as the record date to determine the stockholders of the Company entitled to notice of and to vote at the 2007 Annual Meeting pursuant to the Board Consent. The Board of Directors additionally designated April 15, 2007, as the date by which any stockholder who wishes to present any business, nominee or proposal for action at the 2007 Annual Meeting must give notice to the Company. This date was changed to coordinate with the new date for the 2007 Annual Meeting.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

As of March 20, 2007, our directors and executive officers were as follows:

NAME	AGE	POSITION
Stephen J. Rattner	49	President
Robert T. Hamilton	43	Chief Financial Officer and Treasurer
James A. Epstein	41	General Counsel and Secretary
Alison C. Tanner	44	Senior Vice President of Corporate Development
Kevin A. Richardson II	38	Chairman of the Board and Director
Stephen L. Cootey	38	Director
Lee S. Isgur	69	Director
Pedro N. Ortega-Dardet	43	Director
Robert L. Doretti	64	Director
Ronald Luks	55	Director
Andrea M. Weiss	51	Director

STEPHEN J. RATTNER was named President of eDiets in October 2006. He joined the Company in May 2006, following the acquisition of Nutrio.com, of which he was President, Chief Executive Officer, and co-Founder. Prior to co-founding Nutrio, Mr. Rattner was co-Founder, President and Chief Operating Officer of HotOffice Technologies. Mr. Rattner was also a name partner in the public accounting firm of Levi, Rattner, Cahlin & Co. (Levi, Rattner). During his tenure at Levi, Rattner, he practiced primarily corporate transactional and taxation work, having counseled numerous clients in large corporate financial transactions. His experience also includes significant involvement in mergers and acquisitions. Prior to co-founding Levi, Rattner, Mr. Rattner was employed by KPMG. He received his Bachelor of Science degree in Business Administration from the University of Florida and is a Certified Public Accountant.

ROBERT T. HAMILTON has served as Chief Financial Officer and Treasurer since November 1999. From July 1995 to November 1999, Mr. Hamilton was Manager, Financial Reporting for Equinox Systems, Inc., a public company engaged in the design and development of serial input/output communication devices. Prior to July 1995, Mr. Hamilton was an audit manager at Arthur Andersen LLP. Mr. Hamilton is also a certified public accountant. From March 2006 to October 2006, Mr. Hamilton served as interim Chief Executive Officer.

JAMES A. EPSTEIN has served as General Counsel and Secretary since April 2004. Prior to joining the Company, Mr. Epstein was General Counsel/Secretary at 21st Century Holding Company from 2000 to 2004, where he oversaw securities matters, regulatory compliance, corporate governance and contracts. From 1999 to 2000, Mr. Epstein was General Counsel for Internet solutions provider 186K.Net, where he drafted commercial contracts and oversaw contractual and licensing relationships with strategic partners such as AT&T, Sprint and Microsoft. As an associate at law firms Conrad & Scherer and Hinshaw & Culbertson, he specialized in the insurance and health care fields, where his clients included major insurers, Lloyds of London, public hospital districts and private health care companies such as HCA and Humana.

ALISON C. TANNER served as Chief Strategy Officer since May 2002 and Senior Vice President of Corporate Development since January 2007. Prior to joining the Company, Ms. Tanner was Director of Investor Relations and Financial Media Relations at Sensormatic Electronics, a NYSE-listed global supplier of electronic security and surveillance products, from 1996 to 2000. Ms. Tanner also served as Senior Director of E-Business. Sensormatic was subsequently sold to Tyco International LTD. Before her work at Sensormatic, Ms. Tanner was Vice President, Director of Private Placements for

Granite Capital, LP, a New York based equity-oriented limited partnership, from 1993 to 1996. Prior to Granite Capital Ms. Tanner worked from 1986 to 1993 at Fred Alger Management, Incorporated, a pension and mutual fund management firm, for one year as a Chartered Financial Analyst and subsequently as an Equity Portfolio Manager. Ms. Tanner spent 1985 to 1986 at Salomon Brothers, Incorporated, a leading investment bank, as a Mortgage-backed Security Analyst in New York, New York, and in 1983 to 1984 as a Registered Representative at Dean Witter Reynolds, Incorporated. From March 2006 to October 2006 Ms. Tanner served as interim Chief Operating Officer.

KEVIN A. RICHARDSON II has served as Chairman of the Board and a member of our board of directors since August 2006. Mr. Richardson founded Prides Capital LLC and Prides Capital Partners LLC in January 2004. Prior to that, Mr. Richardson had been a partner at Blum Capital Partners since April of 1999. Blum Capital Partners is a $2.5 billion investment firm, which pioneered the investment style of strategic block investing . Between May 1999 and September 2003, Mr. Richardson was the lead public partner on 18 investments. Prior to joining Blum Capital, Mr. Richardson was an analyst at Tudor Investment Corporation, an investment management firm that currently manages approximately $8.8 billion across several hedge funds and private equity funds. Previously, Mr. Richardson spent four years at Fidelity Management and Research where he was the assistant portfolio manager of the Fidelity Contra Fund, a registered investment company. Mr. Richardson also managed the following additional registered investment companies, Fidelity Airline Fund, the Fidelity Aerospace and Defense Fund, and performed research and analysis in a variety of industry sectors (computer services, business services, media, financial services, and healthcare information technology). Previously, Mr. Richardson worked at Kidder, Peabody & Co.

STEPHEN L. COOTEY has served as a member of our board of directors since May 2006. Mr. Cootey is member of the Prides Capital LLC investment team. Prior to joining Prides Capital, he was a vice president at Credit Suisse First Boston from 2001 to2004, where he participated in over 25 transactions, raising over $18 billion in capital through the equity and debt markets. His responsibilities included credit analysis, structuring, due diligence, negotiation and the execution of equity, debt and M&A transactions. Prior to joining CSFB, Mr. Cootey was an associate at Goldman Sachs and Accenture specializing in strategy and technical implementation of asset management software applications for high net worth clients. In addition, Mr. Cootey founded and ran his own consulting firm, from 1997 to 1998.

LEE S. ISGUR has served as a member of our board of directors since December 1999. Mr. Isgur has served as Principal and Chief Financial Officer of Marché restaurant (Menlo Park, California) since 2001. Mr. Isgur has been the Managing Partner of Corporate Counselors, a research and investment banking consulting firm since 1997. From 1994 to 1997, Mr. Isgur was Managing Director of Jeffries & Company, an investment-banking firm. Mr. Isgur has served on the board of Station Casinos, Inc. (NYSE) since 2003. He is a member of Station s audit and corporate governance committees.

PEDRO N. ORTEGA-DARDET has served as a member of our board of directors since July 2002. Mr. Ortega-Dardet has served as President of Skinmatics, Inc., which designs, manufactures and markets premium skin-care products under the name Wilma Schumann Skin Care, since 1997. Mr. Ortega-Dardet also serves as Director of the Esthetics Manufacturer and Distributors Alliance and serves as the Editor of Skin and Body News, an industry newsletter. Mr. Ortega-Dardet holds a B.S. degree in Industrial Engineering and Operations Research from Syracuse University and an M.B.A. with a concentration in Finance and a minor in Marketing from the University of Miami.

ROBERT L. DORETTI has served as a member of our board of directors since July 2004. Mr. Doretti had served as Chairman, Chief Executive Officer and President of ON Technology Corporation, a provider of software infrastructure solutions to Fortune 500 enterprises, from 2000 through its acquisition by Symantec Corporation in February 2004. From 1995 through its acquisition by Oracle Corporation in 1999, Mr. Doretti was President and Chief Executive Officer of Thinking Machines Corporation, a professional services and software provider of data mining and customer relationship management (CRM) solutions. Mr. Doretti spent over 19 years at Wang Laboratories, Inc., including the last 7 years as Senior Vice President of US Operations, where he was instrumental in growing that business to $1.8 billion in revenue.

RONALD LUKS has served as a member of our board of directors since July 2004. Mr. Luks has served as President of Egret Associates, Inc. since 1988 and is a founding principal in Fun Online Corp. Both firms provide content creation and licensing services, online community management and real time publication services to the major commercial online services including CompuServe, Netscape.com, AOL and the Microsoft Network. Mr. Luks has been an industry consultant to such firms as Nintendo of America, Rolling Stone Interactive, Activision, and Sega of America. Mr. Luks was formerly a partner in the Wall Street firm of Ernst & Co., and a member of the American Stock Exchange and other national stock and commodity exchanges. He currently maintains his securities registration with Liberty Pacific Securities, LLC, a Seattle-based investment banking firm.

ANDREA M. WEISS has served as a member of our board of directors since July 2004. Ms. Weiss has owned and operated Retail Consulting, Inc., a retail consulting business, since August 2002. Ms. Weiss was President of dELiA*s Corp., a multi-channel retailer to teenage girls and young women, from April 2001 to August 2002. From May 1998 to February 2001, Ms. Weiss served as Executive Vice President and Chief Stores Officer of The Limited, Inc., where she was responsible for developing and directing retail operations and sales strategy for more than 5000 retail stores. She served as President of Retail of Guess, Inc. from February 1996 to April 1998, where she oversaw all aspects of the retail division, including merchandising, retail and factory store operations, real estate and marketing. From May 1992 to February 1996, Ms. Weiss was Senior Vice President and Director of Stores at Ann Taylor Stores, Inc., where she was responsible for store operations during the Company s expansion to over 350 stores. From April 1990 to May 1992, Ms. Weiss served as Director of Merchandise Operations at the Walt Disney Company. Ms. Weiss serves on the Board of Trustees of Hampton University, Hampton, Virginia. Ms. Weiss is a director of CBRL Group, Inc., a holding company engaged in the operation and development of restaurant and retail concepts and, since 2003, has been a director of Tabi International Ltd., a Canadian retailer of women s clothing and accessories. Ms. Weiss has also been a director of GSI Commerce, Inc. since June 2006.

CORPORATE GOVERNANCE

Board of Directors

The Board of Directors of the Company, which met four times in 2006, has formed the following standing committees.

1. The Audit Committee consists of Mr. Isgur, Mr. Ortega-Dardet and Mr. Doretti, and its function is to oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company. The Board of Directors has adopted a written charter for the Audit Committee. A copy of the charter is available on the Company s website at www.ediets.com. The Board has determined each individual to be financially sophisticated and that Mr. Isgur is an audit committee financial expert as those terms are defined by the Nasdaq Corporate Governance Rules and the rules of the Securities and Exchange Commission. The Audit Committee met eight times in 2006. Mr. Isgur is the chairperson of the Audit Committee.

2. In February 2006, the Board of Directors split the Governance Committee into separate Governance, Nominating and Compensation Committees. The Governance and Nomination Committees are composed of Mr. Doretti (Chair), Mr. Isgur, Mr. Luks, Mr. Ortega-Dardet, and Ms. Weiss. The Compensation Committee is composed of Ms. Weiss (Chair), Mr. Isgur, Mr. Luks and Mr. Cootey. The Board of Directors has adopted written charters for these committees. Copies of these charters are available on the Company s website at www.ediets.com. Their functions are to assist the Board of Directors in determining and overseeing the compensation practices of the company, issues relating to the composition and operation of the Board of Directors and its committees, and the development of good corporate governance practices. These functions were formerly combined in the Governance Committee which consisted of Mr. Doretti, Mr. Isgur (Chair), Mr. Luks, Mr. Ortega-Dardet, and Ms. Weiss. The Governance Committee met two times in 2006 and consulted informally on numerous occasions in its nominating, governance and compensatory capacities. The Compensation Committee met eight times in 2006.

During 2006, each director attended at least 75% of the aggregate of (i) all meetings of the Board of Directors held during the period for which he or she has been a director and (ii) all meetings of each committee of the Board held during the periods that he or she served as a member of such committee.

The Board has determined that Mr. Doretti, Mr. Isgur, Mr. Luks, Mr. Ortega-Dardet, and Ms. Weiss are independent directors, as defined under the Nasdaq Marketplace Rules. Furthermore, all of the Audit Committee members are independent, as independence for audit committee members is defined under the Nasdaq Marketplace Rules and SEC regulations. All of the Governance Committee members are independent, as independence for compensation, nominating and governance committees is defined under the Nasdaq Marketplace Rules.

There are no family relationships among any of the directors or executive officers of the Company.

The Audit Committee pre-approves all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed by the independent accountants, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, as amended, that are approved by the Audit Committee prior to the completion of the audit.

The Audit Committee has adopted guidelines regarding the engagement of the independent auditor. For audit services (including statutory audit engagements as required under state laws), the independent auditor will provide the Audit Committee with an engagement letter no later than 6 weeks prior to the end of the fourth quarter of each year outlining the scope of the audit services proposed to be performed during the next fiscal year. If agreed to by the Audit Committee, this engagement letter will be formally accepted by the Audit Committee at the later of either its 4th Quarter Audit Committee meeting or four weeks before the end of the 4th Quarter. The independent auditor will submit to the Audit Committee for approval an audit services fee proposal after acceptance of the engagement letter.

For non-audit services, Company management will submit to the Audit Committee for approval (during June or September of each fiscal year) the list of non-audit services that it recommends the Committee engage the independent auditor to provide for the fiscal year. Company management and the independent auditor will each confirm to the Audit Committee that each non-audit service on the list is permissible under all applicable legal requirements. In addition to the list of planned non-audit services, a budget estimating non-audit service spending for the fiscal year will be provided. The Audit Committee will approve both the list of permissible non-audit services and the budget for such services. The Audit Committee will be informed routinely as to the non-audit services actually provided by the independent auditor pursuant to this pre-approval process.

To ensure prompt handling of unexpected matters, the Audit Committee delegates to the Chair the authority to amend or modify the list of approved permissible non-audit services and fees. The Chair will report action taken to the Audit Committee at the next committee meeting.

The independent auditor must ensure that all audit and non-audit services have been approved by the Audit Committee. The Chief Financial Officer is responsible for tracking all independent auditor fees against the budget for such services and to report at least annually to the Audit Committee.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities and Exchange Act of 1934, as amended, requires the Company s officers and directors and persons who own more than 10% of a registered class of the Company s equity securities (reporting persons) to file certain reports of ownership and changes in their ownership of the Company s equity securities with the SEC.

As of the date of this report, based on our review of the copies of the forms we received, we believe that all directors, officers and beneficial holders of more than 10% of our equity securities timely filed all reports required by Section 16(a) of the Securities Exchange Act of 1934 during the fiscal year ended December 31, 2006.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that comprises a code of ethics, as defined by the federal securities laws. The Code of Business Conduct and Ethics applies to all directors, officers and employees of the Company and is posted at www.ediets.com under the caption Investor Relations. We intend to make all required disclosures concerning amendments to, or waivers from, this code on our website or in a report on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION
Compensation Discussion and Analysis

The Company s Compensation Committee (the Committee) oversees the compensation programs of the Company, with particular attention to the compensation of the chief executive officer, other executive officers, and directors. The Committee reviews and recommends to the Board of Directors changes to the Company s compensation policies and benefits programs, administers the Company s stock plans, including recommending approval of stock option grants to executive officers and other stock option grants, and otherwise ensures that the Company s compensation philosophy is consistent with the best interests of the Company and is properly implemented.

The Company s compensation philosophy and objectives are to (1) provide a competitive total compensation package that enables the Company to attract and retain key executive and employee talent needed to accomplish the Company s revenue, profit, and/or strategic performance goals as established from time to time by the Board, and (2) link compensation to improvements in the Company s financial and operational performance. Total compensation is therefore comprised of a base salary plus both cash and non-cash incentive compensation, and is based on the Company s financial performance and other factors.

In 2007, the Company expects at least some key employees and all named executive officers will be partially compensated by a performance based bonus program. The bonus may take the form of cash, equity or some combination of the two and will be based on employee and Company performance.

The Committee reviews each named executive officer s base salary annually. In determining appropriate base salary levels, consideration is given to the Company s performance, the officer s impact on the Company s operations or performance, scope of responsibility, prior experience, past accomplishments and data on prevailing compensation levels in relevant executive labor markets similar to the Company s in terms of geography, products, size and scope. In 2006, because of the transition in corporate structure and at the CEO level, the Committee increased the base salaries of the other named executive officers as a means of encouraging their retention during a key transitional period for the Company.

The principal executive officer participates in the same programs and receives compensation based on the same factors as the other named executive officers. In addition, when making decisions regarding the principal executive officer s compensation, the Committee considers his status as the Company s most senior officer and the important role he has in achieving overall corporate goals. The principal executive officer s overall compensation therefore reflects this greater degree of policy and decision-making authority, and the higher level of responsibility with respect to the strategic direction and financial and operational results of the Company.

The Committee emphasizes equity compensation as a method to provide officers and other employees with a strong economic interest in maximizing shareholder return over the longer term. The Company believes that the practice of granting equity compensation is important in retaining and recruiting the key talent necessary at all employee levels to ensure the Company s continued success.

The Committee continually reviews the potential impact of new accounting regulations in order to assess whether, on balance, any new regulations will outweigh the positive impact of certain features of the current compensation program. When warranted, the Committee may deemphasize some features of the current program in favor of other forms of compensation.

For much of 2006 the Company did not have a permanent principal executive officer. The Company plans to establish a new compensation program for its recently appointed President who is acting in the role of principal executive officer, other named executive officers and other key employees in 2007. The Company intends that the new compensation program will further align participants compensation levels with improvements in the Company s financial and operational performance and any resultant increase in shareholder value.

2006 Executive Compensation Components

For the fiscal year ended December 31, 2006, the principal components of compensation for named executive officers were:

- Base salary;
- Employee equity plans ;
- Severance, change of control and other termination related programs;
- 401(k) Plan and other benefits.

Base Salary

Base salaries of named executive officers are determined by the Committee. Base salaries are determined by giving consideration to the Company s performance, the officer s impact level, scope of responsibility, prior experience, past accomplishments and data on prevailing compensation levels in relevant executive labor markets of publicly traded e-commerce and/or weight loss service provider companies of similar size and market presence. Base salaries are reviewed annually.

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Bonus

The Company did not pay bonuses to the named executive officers in 2006. The Company plans to implement a bonus program in 2007 which will align a significant portion of the named executive officers compensation levels to the financial and operating performance of the Company.

Employee Equity Plans

The Company has two employee equity plans: the 1999 Stock Option Plan and the 2004 Equity Incentive Plan. Under the 1999 Stock Option Plan options grants 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 have terms of five or ten years. The 2004 Equity Incentive Plan provides for the grant of incentive stock options, non-qualified stock-options, stock appreciation rights, restricted stock, deferred stock and unrestricted stock. The maximum benefit that would be paid to any person under this plan in any calendar year is 450,000 shares. Grants are determined by giving consideration to the Company s performance, the officer s impact level, scope of responsibility and the extent to which such grants will encourage retention of the named executive officer.

Severance, change of control and other termination related programs

The Company entered into employment agreements with each of its named executive officers. Such employment agreements provide for an 18 or 24 month term and renewal by mutual agreement unless sooner terminated for cause (willful breach or habitual neglect of job duties and responsibilities; conviction of any felony, excluding minor traffic offenses; commission of an act of fraud, embezzlement or material misappropriation or dishonesty against the Company; or commission of a serious violation of any of the Company s personnel policies, including but not limited to violations of policies against any form of harassment), death, or a change in control ((i) any consolidation or merger of the Company in which it is not the continuing or surviving corporation or pursuant to which shares of the Company s Common Stock would be converted into cash, securities or other property, other than a merger of in which the holders of Common Stock immediately prior to the merger continue to control the surviving corporation immediately after the merger and other than a merger with an affiliate of the Company, or (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or the shareholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company or (3) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the Exchange Act)), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 80% or more of the combined voting power of the Company s outstanding voting securities). These agreements provide for a severance allowance of an amount equal to six months base salary, plus one month for each year of service at the then-effective rate, plus all accrued but unpaid allowances, expense reimbursements, bonuses, and commissions. The Company will also reimburse for expenses relating to the extension of health benefits under COBRA for a period of six months after termination. Additionally, any unvested shares under the Company s Employee Equity Plans (and any other Stock Options granted under the Plan) will vest immediately and will be exercisable for 60 days following the date of termination upon change of control or for 12 months following the date of termination by the Company without cause or by the individual for good reason. The objective of these employment agreements is to encourage the retention of the named executive officer in a competitive labor market.

401(k) Plan and other benefits

The Company provides various benefits and compensation related programs to executives and other salaried employees which allow it to provide a full and comprehensive compensation package to said employees. The elements of the Company s compensation program not otherwise discussed above are:

a) A 401(k) Plan wherein the Company matches 25% of employee contributions. The Company s matching contribution vests based on the employee s years of continuous service over a period of five years;

b) Medical and dental insurance for which the Company pays a maximum of 80% of the premiums for ;

c) Life and accidental death and dismemberment (AD&D) insurance coverage of one time the employee s base salary (with a maximum of $150,000) paid for by the Company; and

d) Long Term Disability and Short Term Disability insurance, again paid for by the Company.

COMPENSATION COMMITTEE REPORT

The Committee, comprised of independent directors, reviewed and discussed the above Compensation Discussion and Analysis (CDA) with the Company s management. Based on the review and discussions, the Committee recommended to the Company s Board of Directors that the CDA be included in this annual report on Form 10-K.

/s/ Andrea M. Weiss (Chair)
/s/ Lee S. Isgur
/s/ Ronald Luks
/s/ Stephen Cootey

March 29, 2007

Summary Compensation Table

The following table summarizes all compensation we paid to our Chief Executive Officer, and each other executive officer whose annual compensation exceeded $100,000 during the fiscal year ended December 31, 2006.

FISCAL YEAR 2006 SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(2)	Option Awards ($)	All Other Compensation ($)	Total ($)
Stephen J. Rattner President (1)	2006	$ 140,400	$	$	$	$	$ 140,400
Robert T. Hamilton Chief Financial Officer	2006	$ 221,156	$	$ 233,539	$	$ 3,750(3)	$ 458,445
James A. Epstein General Counsel	2006	$ 221,283	$	$ 77,846	$	$ 130(3)	$ 299,259
Alison C. Tanner Senior Vice President of Corporate Development	2006	$ 223,051	$	$ 155,693	$	$ 3,750(3)	$ 382,494
Terminated in 2006							
David R. Humble Former Chief Executive Officer (4)	2006	$ 153,846	$	$	$	$	$ 153,846
Ciaran G. McCourt Former Chief Executive Officer (5)	2006	$ 77,206	$	$	$	$ 239,786	$ 316,992

(1) Mr. Rattner joined us in May 2006 following the acquisition of Nutrio. He became President in October 2006.
(2) Amounts represent the aggregate grant date of June 13, 2006 fair value computed in accordance with FAS 123R for the restricted stock issued to each executive officer. Assumptions used in the calculation of these amounts are included in footnote 9 of our financial statements.
(3) Amounts represent 401(k) contributions made by us on their behalf.
(4) Mr. Humble s employment terminated on August 1, 2006.
(5) Mr. McCourt s employment terminated on March 30, 2006. On April 13, 2006, the Company entered into a Separation and Release Agreement (the Agreement) with Mr. McCourt under which Mr. McCourt was to receive severance in the amount of $450,000 to be paid in 39 equal bi-weekly installments, a $25,000 lump sum payment for transitional expenses, and the vesting of all options with 90 days from the effective date of the Agreement. As of December 31, 2006 the Company has paid a total of $239,786 pursuant the Agreement and has recorded a liability for the remaining $235,214 to be paid out throughout 2007.

Grants of Plan-Based Awards Table

The following table sets forth each grant of an award made to (1) our Chief Executive Officer, (2) our Chief Financial Officer and (3) our other most highly compensated executive officers whose total compensation exceeded $100,000 during the fiscal year ended December 31, 2006 under our incentive plans.

Name	Grant Date	All Other Stock Awards: Number of Shares Of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards ($ / Sh)
Robert T. Hamilton	6/13/06	60,000	$ 269,400
James A. Epstein	6/13/06	20,000	$ 89,800
Alison C. Tanner	6/13/06	40,000	$ 179,600

Outstanding Equity Awards at Fiscal Year End Table

The following table sets forth information concerning unexercised options; stock that has not vested; and equity incentive plan awards outstanding on December 21, 2006 for each of our Named Executive Officers.

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($) (1)
Robert T. Hamilton	30,000		$ 2.86	09/04/2008		
	7,499	7,501	$ 3.05	03/03/2015		
	2,679	5,360	$ 4.79	08/01/2010		
					60,000	$ 231,600
James A. Epstein	24,999	5,001	$ 3.90	04/26/2014		
	4,999	5,001	$ 3.05	03/03/2015		
	2,339	4,680	$ 4.79	08/01/2010		
					20,000	$ 77,200
Alison C. Tanner	25,000		$ 1.80	05/10/2007		
		10,000	$ 2.86	09/04/2008		
	8,333	1,667	$ 7.24	02/09/2009		
	7,499	7,501	$ 3.05	03/03/2015		
	2,679	5,360	$ 4.79	08/01/2010		
					40,000	$ 154,400

(1) Value is based on the fair market value of the stock at December 29, 2006, the last trading day of the fiscal year ($3.88 per share), multiplied by the number of shares that have not vested. Fair market value is calculated as the mean average of the high and the low prices on such date.

Option Exercises and Stock Vested Table

The following table shows the number of shares of common stock acquired during 2006 upon exercise of options by our Named Executive Officers.

	Option Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)
Robert T. Hamilton	63,000	$ 163,935
Terminated in 2006		
David R. Humble	250,000	$ 198,370
Ciaran G. McCourt	200,000	$ 164,288

(1) Value is based on the difference between the fair market value on the date of exercise and the exercise price of the options. Fair market value is calculated as the mean average of the high and the low prices on such date.

Compensation of Directors

Under the Company s compensation policy for non-employee directors, upon initial appointment, non-employee directors are granted the option to purchase 25,000 shares of Common Stock. These options vest in four increments over a two-year period. Options are granted for an additional 12,500 shares on January 1 of each succeeding year of board service. These options vest in two increments over a one-year period. Options are also granted for an additional 12,500 shares per year for each year of service on the Audit Committee, the Governance Committee and the Compensation Committee. These options vest in two increments over a one-year period. The exercise price for all options is equal to the market price of the Common Stock on the date of grant. Non-employee directors also receive an annual retainer in the amount of $10,000 which they may choose to take in the form of cash or stock. They are compensated in the amount of $500 for each face-to-face meeting of the Board or a committee thereof and for every five telephone meetings of the Board or a committee thereof. Non-employee directors are reimbursed for expenses incurred in attending Board and committee meetings, including those for travel, food and lodging.

Director Compensation Table

The following table sets forth a summary of the compensation earned by our non-employee directors and/or paid to certain of our non-employee directors in 2006.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(2)	Total ($)
Kevin A. Richardson II (1)	$ 1,200	$ 5,000	$ 27,166	$ 33,366
Stephen L. Cootey (1)	$ 4,000	$ 7,500	$ 42,416	$ 53,916
Lee S. Isgur	$ 10,000	$ 10,000	$ 126,618	$ 146,618
Pedro N. Ortega-Dardet	$ 18,300		$ 109,430	$ 127,730
Robert L. Doretti	$ 19,800		$ 109,430	$ 129,230
Ronald Luks	$ 8,400	$ 10,000	$ 109,430	$ 127,830
Andrea M. Weiss	$ 7,600	$ 10,000	$ 109,430	$ 127,030

(1) Kevin A. Richardson II and Stephen L. Cootey s compensation is paid to Prides Capital Partners, LLC. Mr. Richardson II and Mr. Cootey joined the board on August 1, 2006 and May 19, 2006, respectively.

(2) Amounts represent the aggregate grant date fair value computed in accordance with FAS 123R for the non-qualified stock options issued to each director. Assumptions used in the calculation of these amounts are included in footnote 9 of our financial statements.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

The Compensation Committee of the Board of Directors consists of Andrea Weiss (Chair), Lee Isgur, Ronald Luks and Stephen Cootey. No person serving on the Compensation Committees at any time has been an officer or employee of the Company or any of its subsidiaries.

Employment Agreements

In November 1999, the Company entered into a three-year employment agreement with Mr. Humble that automatically renewed each year thereafter. Mr. Humble received a base salary of $250,000 per year, which was increased from $150,000 in December 2000. He was also entitled to receive a bonus to be determined by the Board of Directors, based on the Company s income before taxes. The employment agreement contained a non-competition provision for the term of employment and two years thereafter and a non-disclosure provision. In the event of a change of control and the termination of his employment, the Company was to pay Mr. Humble within thirty (30) days after such termination, a lump sum payment in cash in an amount equal to the balance of his base salary for the remaining term of the employment agreement. A change of control was defined to have occurred if (i) any person or group of persons (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the 1934 Act)), becomes the beneficial owner (as defined in Rule 13d-3 promulgated under the 1934 Act), directly or indirectly, of securities of the Company representing more than thirty-five percent (35%) of the Company s then outstanding securities having the right to vote on the election of directors or (ii) if directors constituting a majority of the Board of Directors are elected to the Board of Directors without the recommendation or approval of the incumbent Board of Directors. The employment agreement was terminated on August 1, 2006.

In February 2005, the Company entered into an employment agreement with Mr. McCourt. Under the terms of his employment agreement, Mr. McCourt is entitled to an annual base salary of $225,000. In addition, the Company granted Mr. McCourt options to purchase 150,000 shares of the Company s common stock. The options vest in increments of 50,000, over three years, on the annual anniversary of the employment agreement. The options have an exercise price of $4.28. The employment agreement provides for a three year term and renewal by mutual agreement unless sooner terminated for cause, death, or a change in control. The employment agreement includes certain non-competition and confidentiality provisions. The employment agreement was terminated on March 30, 2006.

On May 18, 2006, the Company entered into a two-year employment agreement (Employment Agreement) with Stephen Rattner. Under the terms the Employment Agreement, Mr. Rattner is entitled to an annual base salary of $240,000, and a discretionary bonus and equity compensation, each comparable to that which is provided to similarly situated executive officers of the Company during the term of the Employment Agreement. The Company may terminate the Employment Agreement for cause, as defined therein, or without cause upon 30 days notice. Mr. Rattner may terminate the Employment Agreement for good reason, as defined therein, or without good reason upon 30 days notice. Upon termination by the Company without cause or by Mr. Rattner for good reason, the Company will be obligated to pay Mr. Rattner a severance allowance of an amount equal to six months of Mr. Rattner s base salary, plus one month for each year of service to the Company, at Mr. Rattner s then current base salary, plus all accrued but unpaid allowances, expense reimbursements, bonuses, and commissions. Upon termination by the Company due to a change of control, as defined in the Employment Agreement, the Company will pay Mr. Rattner a severance allowance of an amount equal to 12 months of Mr. Rattner s then current base salary. If the Employment Agreement is terminated by the Company without cause, by Mr. Rattner for good reason or upon change of control prior to the end of the first Measurement Year (as defined in the Merger Agreement), the EBITDA targets for the first and second Measurement Years in the Earn Out (as defined in the Merger Agreement) plan set forth in Exhibit F-1 to the Merger Agreement will be deemed to have been met completely and the Earn Out Payments (as defined in the Merger Agreement) in respect of such Measurement Years will be made pursuant to the schedule set forth therein. If such termination occurs after the first Measurement Year but prior to the end of the second Measurement Year, the EBITDA targets for the second Measurement Year in the Earn Out plan set forth in Exhibit F-1 to the Merger Agreement will be deemed to have been met completely and the Earn Out Payment in respect of such Measurement Year will be made pursuant to the schedule set forth therein. The Employment Agreement includes certain non-competition and confidentiality provisions.

On April 26, 2005 the Company entered an employment agreement with Mr. Hamilton. Under the terms of the agreement, Mr. Hamilton is entitled to an annual base salary of not less than $189,000. The employment agreement provides for an eighteen month term and renewal by mutual agreement unless sooner terminated for cause, death, or a change in control. The employment agreement includes certain non-competition and confidentiality provisions. In September 2006, Mr. Hamilton s agreement was amended to extend the term until October 26, 2007.

On May 1, 2005 the Company entered an employment agreement with Ms. Tanner. Under the terms of the agreement, Ms. Tanner is entitled to an annual base salary of not less than $189,000. The employment agreement provides for an eighteen month term and renewal by mutual agreement unless sooner terminated for cause, death, or a change in control. The employment agreement includes certain non-competition and confidentiality provisions. In September 2006, Ms. Tanner s agreement was amended to extend the term until November 1, 2007.

On June 13, 2005 the Company entered an employment agreement with Mr. Epstein, its Chief Legal Officer. Under the terms of the agreement, Mr. Epstein is entitled to an annual base salary of not less than $165,000. The employment agreement provides for an eighteen month term and renewal by mutual agreement unless sooner terminated for cause, death, or a change in control. The employment agreement includes certain non-competition and confidentiality provisions. In September 2006, Mr. Epstein s agreement was amended to extend the term until December 13, 2007.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Beneficial Ownership Of Principal Shareholders And Management

The following table sets forth, as of March 20, 2007 (unless otherwise specified), certain information regarding beneficial ownership of Common Stock: (i) by each person who is known by us to beneficially own more than 5% of our outstanding shares; (ii) by each of our directors; (iii) by the Chief Executive Officer and the three other most highly compensated executive officers who were serving as executive officers as of the end of fiscal year 2006; and (iv) by all of our present directors and executive officers as a group. Such information is based upon information filed by such persons with the SEC or provided to the Company by such persons or by other sources believed to be reliable.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
Prides Capital Partners, LLC	11,129,896(1)	42.9%
Alejandro Gonzalez	2,236,238(2)	9.1%
Lee S. Isgur	424,228(3)	1.7%
Pedro N. Ortega-Dardet	201,904(4)	*
Robert L. Doretti	127,064(5)	*
Ronald Luks	108,140(6)	*
Andrea M. Weiss	105,179(7)	*
Stephen J. Rattner		
Robert T. Hamilton	98,223(8)	*
James A. Epstein	40,175(9)	*
Alison C. Tanner	59,018(10)	*
All directors and executive officers as a group (10 persons)	12,293,827	46.0%

* Less than 1%