

# VITACOST.COM, INC.

## FORM 10-Q (Quarterly Report)

Filed 06/16/11 for the Period Ending 03/31/11

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Symbol	VITC
SIC Code	5961 - Catalog and Mail-Order Houses
Industry	Retail (Grocery)
Sector	Services
Fiscal Year	12/31

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2011**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number: 001-34468**

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**VITACOST.COM, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**37-1333024**

(I.R.S. Employer  
Identification No.)

**5400 Broken Sound Blvd. - NW, Suite 500, Boca Raton, FL**

(Address of Principal Executive Offices)

**33487**

(Zip Code)

**(561) 982-4180**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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  No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter time period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of June 16, 2011, the registrant has 27,790,453 shares of common stock outstanding.

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Vitacost.com, Inc. Form 10-Q

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## EXPLANATORY NOTE

Along with this delayed Quarterly Report on Form 10-Q, Vitacost.com, Inc., or Vitacost is also filing with the Securities and Exchange Commission, or SEC, its delayed Annual Report on Form 10-K for the period ended December 31, 2010 and its delayed Quarterly Report on Form 10-Q for the quarter ended September 30, 2010.

Unless the context otherwise requires, references in this Annual Report on Form 10-K to "Vitacost.com, Inc.," "Vitacost," "Company," "we," "us," or "our" refer to Vitacost.com, Inc., a Delaware corporation.

We have not amended any of our Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for periods prior to September 30, 2010.

### Background

In October 2010, pursuant to a request from a member of our board, our audit committee initiated an internal review into the methodologies and procedures used by the Company to calculate the value, for financial reporting purposes, of certain stock-based compensation grants and awards and the classification of certain non-cash expense items previously reported in the Company's financial statements in connection therewith. The internal review was conducted by the audit committee with the assistance of outside independent professional advisors and consultants.

On November 15, 2010, in connection with the ongoing internal review, we issued a press release announcing that we had filed a Form 12b-25 with the SEC related to the delayed filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010. We contacted The NASDAQ Stock Market ("NASDAQ") and informed NASDAQ of the delayed filing. On November 16, 2010, we received a letter from NASDAQ indicating that we were not in compliance with NASDAQ Listing Rule 5250(c) because we had not timely filed our Form 10-Q for the quarter ended September 30, 2010.

On December 7, 2010, we announced that, in connection with the ongoing internal review, our board had voted to postpone our 2010 Annual Meeting of Stockholders previously scheduled to be held on Thursday, December 9, 2010. On December 21, 2010, we received a letter from NASDAQ indicating that based on its review of the Company and pursuant to NASDAQ Listing Rule 5101, the NASDAQ staff had determined that continued listing of our securities on The NASDAQ Stock Market was no longer warranted. On January 3, 2011, we received a letter from NASDAQ indicating that we had not held our annual meeting of stockholders within the required timeframe and this would serve as an additional basis for delisting our securities from NASDAQ.

In response to our appeal of the decision to delist, NASDAQ set a delisting hearing for February 3, 2011. On February 3, 2011, we requested an exception through June 20, 2011 in which to resolve our corporate governance, share, organizational and formation issues and file our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010. In addition, we requested an exception through July 5, 2011 in which to solicit proxies for and hold our 2010 Annual Meeting of Stockholders. On February 28, 2011, we received a letter from NASDAQ granting both requests. The letter provided that we would not be delisted, subject to certain conditions.

On January 14, 2011, Michael Sheridan resigned as Director of the Company, and as the Chairman of the Company's Audit Committee. On that same day, Mark Jung also resigned as a Director of the Company and as a member of its Audit Committee. On February 22, 2011, we received another letter from NASDAQ indicating that we were not in compliance with NASDAQ's audit committee requirements as set forth in NASDAQ Listing Rule 5605 because our committee only comprised of two members. This would be an additional basis for delisting our securities from NASDAQ. On February 28, 2011, we announced the appointment of Edwin J. Kozlowski and Stuart Goldfarb to our Board. Mr. Kozlowski was also named as the Chairman of the Audit Committee and Mr. Goldfarb as a member of the Audit Committee. As a result of the appointment of the two board members, we regained compliance with NASDAQ's audit committee requirements.

On April 7, 2011 and May 18, 2011, respectively, we received letters from NASDAQ indicating that we were not in compliance with NASDAQ Listing Rule 5250(c) because (i) we had not timely filed our Annual Report on Form 10-K for the year ended December 31, 2010 and (ii) we had not timely filed our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

On June 16, 2011, we filed this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2010 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010.

### Audit Committee Findings

During the course of the internal review, our audit committee and its advisors discovered certain defects in our corporate organizational and formation documents and certain corporate transactions that may not have been authorized in accordance with all requirements of applicable Delaware corporate law, including, without limitation, certain stock splits and stock option and other stock issuance transactions. In order to address these issues and to quiet title to all outstanding shares of common stock and stock options, as part of the settlement of our pending derivative suit in the Circuit Court of the Fifteenth Judicial District, Palm Beach County, Florida (the "Court"), captioned Kloss v. Kerker et al., we requested that the Court enter a final order recognizing and quieting title to all outstanding Vitacost shares of stock and stock options for and as of the twelve (12) month period ending December 31, 2004 through the six (6) month period ending June 30, 2009. On May 27, 2011, the Court issued an order and final judgment (the "Order") approving the settlement of the derivative lawsuit. The Order also quiets title to all our outstanding shares of stock and stock options for all audited periods since 2004 through June 30, 2009 pursuant to the inherent equitable powers of the Court and the Uniform Commercial Code. The Order further provides that our certificate of incorporation, as amended, is the valid and effective certificate of incorporation of the Company, until validly amended in accordance with applicable Delaware law and our certificate of

incorporation and bylaws.

On June 6, 2011, our audit committee concluded its internal review and determined that no restatement of the Company's previously issued financial statements was required.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**Vitacost.com, Inc.**  
**Consolidated Balance Sheets**  
**(unaudited)**

	As of	
	March 31, 2011	December 31, 2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 14,451,133	\$ 14,592,803
Securities available-for-sale	8,780,230	10,912,392
Accounts receivable	1,298,825	440,033
Other receivables	511,532	1,087,311
Inventory	28,536,693	29,827,929
Prepaid expenses	1,895,441	1,361,230
Other assets	3,539,515	3,553,089
<b>Total current assets</b>	<u>59,013,369</u>	<u>61,774,787</u>
Property and equipment, net	37,811,231	38,011,314
Goodwill	2,200,000	2,200,000
Intangible assets, net	3,823	4,946
Deposits	429,727	114,308
<b>Total assets</b>	<u>\$ 99,458,150</u>	<u>\$ 102,105,355</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Current maturities of notes payable	\$ 29,700	\$ 58,888
Accounts payable	24,095,798	26,533,204
Deferred revenue	3,188,607	2,134,305
Accrued expenses	11,524,070	10,671,865
<b>Total current liabilities</b>	<u>38,838,175</u>	<u>39,398,262</u>
Deferred tax liability	521,389	521,389
<b>Total liabilities</b>	<u>\$ 39,359,564</u>	<u>\$ 39,919,651</u>
<b>Stockholders' Equity</b>		
Preferred stock, par value \$.00001 per share; authorized 25,000,000; no shares issued and outstanding at March 31, 2011 and December 31, 2010	—	—
Common stock, par value \$.00001 per share; authorized 100,000,000; 27,790,453 and 27,780,453 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	278	278
Additional paid-in capital	74,950,908	74,829,972
Accumulated other comprehensive loss	(5,763)	(20,207)
Accumulated deficit	(14,846,837)	(12,624,339)
<b>Total stockholders' equity</b>	<u>60,098,586</u>	<u>62,185,704</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 99,458,150</u>	<u>\$ 102,105,355</u>

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

**Vitacost.com, Inc.**  
**Consolidated Statements of Operations**  
**(unaudited)**

	For the Three Months Ended March 31,	
	2011	2010
Net sales	\$ 63,762,078	\$ 57,176,143
Cost of goods sold	48,395,264	41,066,877
<b>Gross profit</b>	<b>15,366,814</b>	<b>16,109,266</b>
Operating expenses:		
Fulfillment	4,941,392	3,690,378
Sales and marketing	5,139,373	3,746,477
General and administrative	7,485,417	4,883,953
	17,566,182	12,320,808
<b>Operating (loss) income</b>	<b>(2,199,368)</b>	<b>3,788,458</b>
Other income (expense):		
Interest income	14,879	28,509
Interest expense	(2,474)	(127,120)
Other income	1,903	11,599
	14,308	(87,012)
(Loss) income before income taxes	(2,185,060)	3,701,446
Income tax expense	(37,438)	(1,196,123)
<b>Net (loss) income</b>	<b>\$ (2,222,498)</b>	<b>\$ 2,505,323</b>
Basic per share information:		
Net (loss) income available to common stockholders	\$ (0.08)	\$ 0.09
Weighted average shares outstanding	27,790,009	27,552,122
Diluted per share information:		
Net (loss) income available to common stockholders	\$ (0.08)	\$ 0.09
Weighted average shares outstanding	27,790,009	28,528,604

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

**Vitacost.com, Inc.**  
**Consolidated Statements of Stockholders' Equity and Comprehensive Income**  
**(unaudited)**

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total
	Shares	Amount				
Balance, December 31, 2010	27,780,453	\$ 278	\$ 74,829,972	\$ (20,207)	\$ (12,102,950)	\$ 62,707,093
Comprehensive income:						-
Net loss	-	-	-	-	(2,222,498)	(2,222,498)
Unrealized gain related to securities available-for-sale	-	-	-	14,444	-	14,444
Comprehensive loss						(2,208,054)
Stock options exercised	10,000	0.01	1,560	-	-	1,560
Stock-based compensation expense	-	-	99,438	-	-	99,438
Income tax benefit from stock options exercised	-	-	19,938	-	-	19,938
Balance, March 31, 2011	<u>27,790,453</u>	<u>\$ 278</u>	<u>\$ 74,950,908</u>	<u>\$ (5,763)</u>	<u>\$ (14,325,448)</u>	<u>\$ 60,619,975</u>

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

**Vitacost.com, Inc.**  
**Consolidated Statements of Cash Flows**  
**(unaudited)**

	For the Three Months Ended March 31,	
	2011	2010
<b>Cash Flows From Operating Activities</b>		
Net (loss) income	\$ (2,222,498)	\$ 2,505,323
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation	1,491,327	1,081,691
Amortization of intangibles	1,123	1,125
Amortization of premium on debt securities available-for-sale	51,114	154,472
Realized gain on the sale of securities available-for-sale	(1,883)	-
Change in fair value of interest rate swap	-	13,327
Stock-based compensation expense	99,438	156,470
Deferred taxes	-	393,889
Provision for inventory reserve	-	-
Loss on disposition of property and equipment and other assets	16,478	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(858,792)	(246,166)
Other receivables	575,779	(146,345)
Inventory	1,291,236	96,092
Prepaid expenses	(534,211)	(944,422)
Other assets	13,574	-
Increase (decrease) in:		
Accounts payable	(2,437,406)	2,013,555
Deferred revenue	1,054,302	(1,029,434)
Accrued expenses	852,205	1,085,094
Income taxes payable	-	315,274
<b>Net cash (used in) provided by operating activities</b>	<b>(608,214)</b>	<b>5,449,945</b>
<b>Cash Flows From Investing Activities</b>		
Payments for the purchase of property and equipment	(1,307,722)	(6,434,123)
Decrease (increase) in deposits	(315,419)	116,629
Purchases of securities available-for-sale	-	(3,688,550)
Proceeds from maturities of securities available-for-sale	2,097,375	3,700,000
<b>Net cash provided by (used in) investing activities</b>	<b>474,234</b>	<b>(6,306,044)</b>
<b>Cash Flows From Financing Activities</b>		
Principal payments on notes payable	(29,188)	(273,943)
Net repayments on line of credit	-	(19,001)
Repayments on capital lease obligation	-	(16,739)
Proceeds from the exercise of stock options	1,560	755,056
Tax benefit from stock based compensation	19,938	388,160
<b>Net cash (used in) provided by financing activities</b>	<b>(7,690)</b>	<b>833,533</b>
<b>Net decrease</b>	<b>(141,670)</b>	<b>(22,566)</b>
Cash and cash equivalents:		
Beginning of year	14,592,803	8,658,157
Ending of period	<u>\$ 14,451,133</u>	<u>\$ 8,635,591</u>

(Continued)

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

**Vitacost.com, Inc.**  
**Consolidated Statements of Cash Flows (continued)**  
**(unaudited)**

	<u>For the Three Months Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
<b>Cash payments for:</b>		
Interest, net of amount capitalized	\$ 2,474	\$ 113,793
Income taxes	\$ -	\$ 100,000
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Equipment purchased not yet paid	\$ 1,707,689	\$ 2,405,500
Application of deposits towards purchases of equipment	\$ -	\$ 4,380,875

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

**Vitacost.com, Inc.**  
**Notes to the Consolidated Financial Statements**  
**(unaudited )**

**Note 1. Nature of Business and Significant Accounting Policies**

**Nature of business :** Vitacost.com, Inc. (“Vitacost” or the “Company”) is an internet-based retailer of nutritional supplements. Vitacost was incorporated in 1994 and began the internet-based retail activity in 1999. Vitacost sells a proprietary and internally developed line of nutraceuticals as well as a selection of other manufacturers’ brand-name health and wellness products. The Company distributes products from two primary locations in North Carolina and Nevada.

**Basis of Presentation :** The accompanying unaudited consolidated financial statements of Vitacost as of March 31, 2011, and for the three months ended March 31, 2011, have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information along with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission (“SEC”) Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles (“GAAP”) for annual financial statements. In management’s opinion, Vitacost has made all adjustments (consisting of normal, recurring and non-recurring adjustments) during the quarter that were considered necessary for the fair presentation of the financial position and operating results of the Company. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. In addition, the results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2011, or for any other period. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes, together with management’s discussion and analysis of financial position and results of operations contained in Vitacost’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (the “Form 10-K”) filed alongside this Quarterly Report on Form 10-Q.

Reclassifications on the 2010 Consolidated Balance Sheet, Consolidated Statements of Operations, and Consolidated Statements of Cash Flows have been made to conform to the 2011 presentation.

**Principles of consolidation:** The consolidated financial statements include the accounts of Vitacost and any wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Earnings per share :** The Company computes earnings per share by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by giving effect to all potentially dilutive common shares, including stock options. The following table reconciles basic weighted-average shares outstanding to diluted weighted-average shares outstanding for the three months ended March 31, 2011 and 2010:

	Three Months Ended March	
	31,	
	2011	2010
Weighted-average shares outstanding - basic	27,790,009	27,552,122
Effect of dilutive securities	-	976,482
Weighted-average shares outstanding - diluted	27,790,009	28,528,604

For the periods where the Company reported losses, all common stock equivalents are excluded from the computation of diluted earnings per share, since the result would be antidilutive. Securities that could potentially dilute earnings per share in the future, but which were not included in the calculation of diluted earnings per share because to do so would have been antidilutive for the periods presented, are as follows:

	Three Months Ended March	
	31,	
	2011	2010
Antidilutive common stock equivalents excluded from diluted earnings per share	2,379,579	-

**Securities available-for-sale :** Available-for-sale securities consist of investment grade municipal debt securities not classified as trading or held-to-maturity. Available-for-sale securities are stated at fair value and unrealized holding gains and losses, net of the related deferred tax effect, are reported as a separate component of stockholders' equity. Premiums and discounts on investments in debt securities are amortized over the contractual lives of those securities. The method of amortization results in a constant effective yield on those securities (the interest method). Interest on debt securities is recognized in income as earned. Realized gains and losses, including losses from declines in value of specific securities determined by management to be other-than-temporary, are included in income. Realized gains and losses are determined on the basis of the average cost of the securities sold. The aggregate fair value of securities available-for-sale as of March 31, 2011 and December 31, 2010 was \$8,780,230 and \$10,912,392 respectively, which approximates cost.

The fair value of available-for-sale securities by contractual maturity as of March 31, 2011, was as follows:

	March 31, 2011
Due within one year	\$ 5,690,880
Due after one year through three years	3,089,350
	<u>\$ 8,780,230</u>

**Fair value of financial instruments** : The Financial Accounting Standards Board (“FASB”) issued authoritative guidance that defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. The guidance applies to all assets and liabilities that are being measured and reported on a fair value basis. It requires new disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Company’s investments in securities available-for-sale are valued based on observable market based inputs that are corroborated by market data and are therefore considered a level 2 investment within the fair value hierarchy.

The Company’s investment in securities available-for-sale are valued based on observable market based inputs that are corroborated by market data and are therefore considered a level 2 investment within the fair value hierarchy.

The carrying amounts of other financial instruments, including cash, cash equivalents, accounts receivable, other receivables, accounts payable and short-term borrowings approximate fair value due to the short maturity of these instruments.

**Concentration of credit risk**: The Company’s cash and cash equivalents are held by one major financial institution. These cash and cash equivalent balances could be impacted if the underlying financial institution fails or is subjected to other adverse conditions in the financial markets. To date the Company has experienced no loss or lack of access to its cash and cash equivalents.

**Recent accounting pronouncements**: In January 2010, authoritative guidance was issued requiring enhanced disclosures for fair value measurements. Entities are required to separately disclose the amounts and reasons of significant transfers in and out of the first two levels of the fair value hierarchy. Entities are also required to present information about purchases, sales, issuance and settlements of fair value measurements within the third level of the fair value hierarchy on a gross basis. As this guidance is disclosure related only, the adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

## Note 2. Inventory

Inventory consists of the following as of March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Raw materials	\$ 3,405,829	\$ 2,898,955
Work in process	3,402,958	4,585,946
Finished goods	21,727,905	22,343,028
	<u>\$ 28,536,693</u>	<u>\$ 29,827,929</u>

### Note 3. Property and Equipment

Property and equipment consists of the following as of March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Buildings and building improvements	\$ 12,202,052	\$ 8,072,716
Furniture, fixtures and equipment	21,200,554	20,830,220
Computers	2,524,002	2,334,427
Software	7,092,032	5,836,948
Leasehold improvements	2,451,146	2,379,597
Land	460,000	460,000
	<u>45,929,786</u>	<u>39,913,908</u>
Less accumulated depreciation	(11,978,636)	(10,488,361)
	<u>33,951,150</u>	<u>29,425,547</u>
Construction-in-progress	3,860,081	8,585,767
	<u>\$ 37,811,231</u>	<u>\$ 38,011,314</u>

The increases to buildings and building improvements were primarily related to the expansion of the Company's Lexington, North Carolina distribution facility that was completed during the first quarter of 2011.

Construction-in-progress was primarily related to the expansion of the Company's Lexington, North Carolina distribution facility for equipment and information technology enhancements. The project is expected to be completed in 2011.

### Note 4. Stock Option Plan

A summary of our stock option activity related to common stock for the three months ended March 31, 2011 and 2010 is as follows:

	2011		2010	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	2,717,530	\$ 6.42	2,745,880	\$ 5.67
Granted	-	-	247,250	9.72
Exercised	(10,000)	0.16	(212,100)	3.56
Forfeited	(3,000)	9.72	-	-
Outstanding at period end	<u>2,704,530</u>	<u>\$ 6.44</u>	<u>2,781,030</u>	<u>\$ 6.19</u>
Exercisable at period end	<u>2,379,579</u>	<u>\$ 6.11</u>	<u>2,168,378</u>	<u>\$ 5.67</u>

As of March 31, 2011 and March 31, 2010, there was approximately \$1,623,210 and \$2,480,900, respectively, of total unrecognized compensation cost, net of estimated forfeitures related to stock options granted under the Company's stock incentive plan, which is expected to be recognized over a weighted average period of 2.17 and 0.80 years, respectively.

During the quarter ended March 31, 2011, the Company recorded an out of period adjustment to reduce stock-based compensation expense by approximately \$220,000 to reflect a change in its forfeiture rate assumption for non-executives. The adjustment, both individually and in the aggregate, was not material to any of the prior years' financial statements and is not expected to be material to the full year 2011 financial statements.

### Note 5. Contingencies

#### Securities Class Action

On May 24, 2010, a putative class action complaint was filed in the United States District Court for the Southern District of Florida against the Company and certain current and former officers and directors by a stockholder on behalf of herself and other stockholders who purchased Vitacost common stock between September 24, 2009 and April 20, 2010, captioned Miyahira v. Vitacost.com, Inc., Ira P. Kerker, Richard P. Smith, Stewart Gitler, Allen S. Josephs, David N. Ifeld, Lawrence A. Pabst, Eran Ezra, and Robert G. Trapp, Case 9:10-cv-80644-KLR. The complaint asserts claims under Sections 11, 12(a)(2), and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The complaint alleges that defendants violated the federal securities laws during the period by, among other things, disseminating false and misleading statements and/or concealing material facts concerning the Company's current and prospective business and financial results. The complaint also alleges that as a result of these actions the Company's stock price was artificially inflated during the class period. The complaint seeks unspecified compensatory damages, costs, and expenses.



On October 19, 2010 the Southern District of Florida appointed a lead plaintiff to represent the purported class of shareholders. Lead plaintiffs filed their amended complaint on February 15, 2011. The amended complaint additionally named as defendants the Company's underwriters for its initial public offering and the Company's former registered independent public accounting firm, added additional claims of alleged false and misleading statements and/or omissions under both the Securities Act and the Exchange Act, and expanded the class period to extend as late as December 7, 2010. On April 28, 2011, lead plaintiffs filed a notice of dismissal without prejudice of the accountant defendants, and on May 4, 2011 the court dismissed the former registered independent public accounting firm without prejudice. The remaining defendants filed their motion to dismiss the amended complaint on April 28, 2011. Lead plaintiffs' opposition to the motion to dismiss is due on June 13, 2011 and defendants' reply is due on July 12, 2011.

The Company records provisions in its consolidated financial statements for pending litigation when it determines that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. As of March 31, 2011, the Company has concluded that it is not probable that a loss has been incurred and is unable to estimate the possible loss or range of loss that could result from an unfavorable verdict. Therefore, the Company has not provided any amounts in the consolidated financial statements for an unfavorable outcome. The Company believes, and has been so advised by counsel, that it has meritorious defenses to the complaint pending against it and will vigorously defend against it. It is possible that the Company's consolidated balance sheets, statements of operations, or cash flows could be materially adversely affected by an unfavorable outcome.

#### Derivative Action and Shareholder Demand

On July 16, 2010 the Company received a letter from a stockholder's counsel demanding that our board of directors take action against certain current and former officers and directors. The factual allegations in the letter are similar to those in the class action lawsuit discussed above. On July 20, 2010, a complaint was filed by an alleged stockholder in the Circuit Court of the 15th Judicial Circuit for Palm Beach County, Florida, purportedly on the Company's behalf. The suit named the Company's then-directors and certain officers as defendants. The factual allegations in the lawsuit mirrored those in the class action lawsuit as well, and the claims were for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, insider trading, and waste of corporate assets. The complaint sought disgorgement, restitution, costs, expenses and non-monetary equitable relief. The Company reached an agreement with the derivative plaintiff to stay proceedings until the Southern District of Florida rules on the Company's motion to dismiss the class action complaint. After a review conducted by the Company's audit committee, on December 7, 2010, the Company filed a Current Report on Form 8-K notifying the market that the Company's financial statements could not be relied upon due to issues relating to the Company's corporate governance and capital structure. In April 2011, the parties in the case, including the plaintiff and the stockholder who made a demand on the Company reached an agreement to settle the matter, subject to court approval. As a result of the settlement, Vitacost has adopted or will adopt significant organizational reforms to strengthen Vitacost's compliance and corporate governance. The settlement also provided that the Company would agree to pay plaintiffs' counsels a total of \$3.5 million in attorney's fees which was provided for in the consolidated financial statements during the quarter ended September 30, 2010. On April 18, 2011, the Plaintiff filed an amended complaint, which encompassed the allegations described in the initial complaint as well as new allegations concerning corporate governance, organizational, and corporate formation issues at the Company. On April 26, 2011, the Court entered an order preliminarily approving the settlement. On May 27, 2011, the Court issued an order and final judgment (the "Order") approving the settlement of the derivative lawsuit. The Order also quiets title to all outstanding Vitacost shares of stock and stock options for all audited periods since 2004 through June 30, 2009 pursuant to the inherent equitable powers of the Court and the Uniform Commercial Code. The Order further provides that the Company's certificate of incorporation, as amended, is the valid and effective certificate of incorporation of the Company, until validly amended in accordance with applicable Delaware law and the Company's certificate of incorporation and bylaws.

#### Other matters

In addition to the matters described above, the Company is involved in litigation and administrative proceedings primarily arising in the normal course of its business. In the opinion of the Company, except as set forth above, our liability, if any, under any other pending litigation or administrative proceedings, even if determined adversely, would not materially affect our financial condition, results of operations or cash flows. Furthermore, the Company has not been the subject of any product liability litigation.

#### **Note 6. Income Taxes**

The effective tax rate for the period ending March 31, 2011 was (1.7%) compared to 32.3% for the period ending March 31, 2010. The change is primarily related to the valuation allowance that was recorded during the period.

The Company evaluates its deferred tax assets on a regular basis to determine if valuation allowances are required. In its evaluation, the Company considers taxable loss carryback availability, expectations of sufficient future taxable income, trends in earnings, existence of taxable income in recent years, the future reversal of temporary differences and the available tax planning strategies that could be implemented, if required. Valuation allowances are established based on the consideration of all available evidence using a more likely than not standard. Based on the Company's evaluation, a valuation allowance of \$752,911 was established against its net deferred tax assets as of March 31, 2011. This amount is in addition to the \$6,352,312 valuation allowance that was recorded as of December 31, 2010. The Company's deferred tax assets for which it has not established a valuation allowance relate to amounts that can be realized through future reversals of existing taxable temporary differences. The Company's valuation allowance will be reversed if and when it becomes more likely than not that the Company can generate sufficient taxable income in the future to utilize the tax benefits of the related deferred tax assets.

#### **Note 7. Subsequent Events**

On April 20, 2011, the Board of Directors of the Company adopted and approved the recommendation of the Audit Committee of the Board of Directors that the Company engage PricewaterhouseCoopers LLP ("PricewaterhouseCoopers") as the Company's registered independent public accounting firm, effective April 21, 2011.

The Company has evaluated subsequent events through the date that the financial statements are issued.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q.*

This Quarterly Report on Form 10-Q contains trend analyses and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs, expected outcomes of litigation, and other information that is not historical information. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "potential," "continue," "seek" or the negative of these terms or other comparable terminology or by discussions of strategy.

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain. We may not realize our expectations and our beliefs may not prove correct. Actual results could differ materially from those described or implied by such forward-looking statements and are subject to change due to the inherent risks and uncertainties such as those disclosed or incorporated by reference to our filings with the SEC. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from the forward-looking statements are set forth in this Quarterly Report on Form 10-Q, under the heading "Risk Factors" and include, among others:

- the current global economic downturn or recession;
- difficulty expanding our manufacturing and distribution facilities;
- significant competition in our industry;
- unfavorable publicity or consumer perception of our products on the Internet;
- the incurrence of material product liability and product recall costs;
- costs of compliance and our failure to comply with government regulations;
- our inability to successfully defend intellectual property claims;
- our failure to keep pace with the changing demands and preferences of our customers for new products;
- disruptions in our manufacturing system, including our information technology systems, or losses of manufacturing certifications; and
- the lack of long-term experience with human consumption of some of our products with innovative ingredients.

### **Overview**

We are a leading internet-based retailer, based on annual sales volume, of health and wellness products such as vitamins, dietary supplements, minerals, herbs, anti-oxidants, organic body and personal care products and sports nutrition and health foods. We sell these products directly to consumers through our website, [www.vitacost.com](http://www.vitacost.com), as well as through our catalogs. Our website and catalogs allow customers to easily browse and purchase products at prices, on average, 30% to 60% lower than manufacturers' suggested retail prices. We strive to offer our customers the broadest product selection of healthy living products at the best value, while providing superior customer service and timely and accurate delivery.

We began operations in 1994 as a catalog retailer of third-party vitamins and supplements under the name Nature's Wealth Company. In 1999, we launched [Vitacost.com](http://Vitacost.com) and introduced our proprietary vitamins and supplements under our NSI brand. In 2000, we began operations under the name [Vitacost.com](http://Vitacost.com), Inc. During 2008, we began manufacturing certain proprietary products in-house and currently have the capacity to produce in excess of one billion tablets and capsules annually.

### **Trends and Other Factors Affecting Our Business**

The Company's litigation climate, in connection with our equity capitalization issue, and the potential de-listing of our common stock from the NASDAQ exchange, has resulted in our vendors accelerating payment terms. This has had a negative impact on our liquidity and cash flow.

Competition has increased as the vitamin and supplements industry shifts towards a greater internet presence. This competitive environment continues to drive margin pressure as deep discounting results from aggressive customer acquisition and retention actions. The dietary supplement industry and our performance are affected by demographic trends as well as trends affecting health and lifestyle preferences and consumer spending. Changes in these trends and other factors that we may not foresee may also impact our business, including potential regulatory actions by the FDA and the FTC that may affect the viability of a given product that we offer. Our business allows us to respond to changing trends by introducing new products and adjusting our product mix and pricing. We will continue to expand our product offering and diversify our product lines.

We intend to continue our focus on meeting the demands of an increasingly aging population, as well as a rapidly growing fitness conscious public, and the effects of increasing costs of traditional healthcare.

### Sources of Revenue

We derive our revenue principally through the sale of product and freight billed to customers associated with the shipment of product. Our primary source of revenue is the sale of products. For the three months ended March 31, 2011, product net sales accounted for approximately 93% of our total net sales with freight comprising the remainder. The ratio of product sales and freight remains unchanged compared to the three months ended March 31, 2010.

### Cost of Goods Sold and Operating Expenses

*Cost of Goods Sold.* Cost of goods sold consists primarily of the cost of the product and the cost of shipping the product to the customer.

*Fulfillment.* Fulfillment expenses include the costs of warehousing supplies, equipment, maintenance, employees and rent.

*Sales and Marketing.* Sales and marketing expenses include advertising and promotional expenditures, website referral expenditures, including third-party content license fees, traditional media advertising, print expenses and payroll related expenses for personnel engaged in marketing, sales, customer service, website development and maintenance. We expense advertising costs as incurred.

*General and Administrative.* General and administrative expenses consist of management and executive compensation, information technology expenses, credit card fees, professional services and general corporate expenses.

### Results of Operations

The following table sets forth certain condensed consolidated statements of operation data as a percentage of net sales for the three months ended March 31, 2011 and 2010, respectively:

	Three Months Ended March 31, (unaudited)	
	2011	2010
Net sales	100.0%	100.0%
Cost of goods sold	75.9	71.8
Gross profit	24.1	28.2
Operating expenses:		
Fulfillment	7.7	6.5
Sales and marketing	8.1	6.6
General and administrative	11.7	8.5
Total operating expense	27.5	21.5
Operating (loss) income	(3.4)	6.6
Net (loss) income	(3.5)%	4.4%

## Comparison of Three Months Ended March 31, 2011 to Three Months Ended March 31, 2010

	Three Months Ended March 31, (unaudited)		\$ Increase (Decrease)	% Increase (Decrease)
	2011	2010		
Third-party products	\$ 45,294,142	\$ 37,147,822	\$ 8,146,320	21.9%
Proprietary products	15,750,007	15,889,422	(139,415)	(0.9)
Freight	2,717,929	4,138,899	(1,420,970)	(34.3)
Net sales	63,762,078	57,176,143	6,585,935	11.5
Cost of goods sold	48,395,264	41,066,877	7,328,387	17.8
Gross profit	\$ 15,366,814	\$ 16,109,266	\$ (742,452)	(4.6) %
Note: Advertising fees included in third party products	\$ 1,000	\$ 343,000		

*Net Sales* . Net sales increased \$6.6 million, or 11.5%, to \$63.8 million for the three months ended March 31, 2011. Net sales of our third-party products increased \$8.1 million, or 21.9% to \$45.3 million for the three months ended March 31, 2011. Third-party products include advertising and fees earned from affiliate programs of an insignificant amount for the three months ended March 31, 2011 and \$0.3 million for the three months ended March 31, 2010. Net sales of our proprietary products remained relatively flat for the three months ended March 31, 2011 as compared to the same period in the prior year. Freight decreased \$1.4 million, or 34.3%, to \$2.7 million for the three months ended March 31, 2011.

The increase in net sales was primarily the result of an increase in our customer base and the number of shipped orders compared to the three months ended March 31, 2010. Sales growth was negatively impacted by an increased competitive environment, which began in 2010 when many of our competitors began offering deep discounts. We expect our competitors will continue to offer discounts at certain times each quarter especially at the end of a quarter. We responded with increased promotional activities including “free shipping” and other discounts on both proprietary and third-party products. The shift to third-party products is primarily due to the expansion of third-party stock keeping units (“SKUs”) while our proprietary product SKU’s remained flat compared to the three months ended March 31, 2010.

*Cost of Goods Sold* . Cost of goods sold increased \$7.3 million, or 17.8%, to \$48.4 million for the three months ended March 31, 2011. As a percentage of net sales, cost of goods sold increased to 75.9% for the three months ended March 31, 2011 from 71.8% for the three months ended March 31, 2010 primarily due to a shift in product mix to higher cost third-party products.

*Gross Profit* . As a result of the changes discussed in net sales and cost of goods sold, gross profit decreased \$0.7 million, or 4.6%, to \$15.4 million for the three months ended March 31, 2011 and gross profit as a percentage of net sales decreased to 24.1% for the three months ended March 31, 2011 from 28.2% for the three months ended March 31, 2010.

*Fulfillment* . Fulfillment expense increased \$1.3 million, or 33.9%, to \$4.9 million for the three months ended March 31, 2011. As a percentage of net sales, fulfillment expense increased to 7.7% for the three months ended March 31, 2011 from 6.5% for the three months ended March 31, 2010. The increase in fulfillment expense was primarily attributable to higher costs at both our expanded Las Vegas, Nevada and Lexington, North Carolina distribution centers as a result of operating inefficiencies. The operating inefficiencies were primarily attributable to temporary warehouse systems optimization problems and a significant unanticipated shift to products requiring special handling (e.g. liquids and glass packaging) resulting in higher labor costs. These inefficiencies began in 2010 and continued through and into the three months ended March 31, 2011. We understand the requirements to reduce these inefficiencies and have been making the appropriate modifications to address them.

*Sales and Marketing* . Sales and marketing expense increased \$1.4 million, or 37.2%, to \$5.1 million for the three months ended March 31, 2011. As a percentage of net sales, expenses increased to 8.1% for the three months ended March 31, 2011 from 6.6% for the three months ended March 31, 2010. The increase was primarily due to an increase in online advertising of \$1.8 million and depreciation expense of \$0.1 million; partially offset by a decrease in print advertising of \$0.5 million.

*General and Administrative* . General and administrative expenses increased \$2.6 million, or 53.3 %, to \$7.5 million for the three months ended March 31, 2011. As a percentage of net sales, expenses increased to 11.7% for the three months ended March 31, 2011 from 8.5% for the three months ended March 31, 2010. Included in the 2011 amount were \$0.6 million in expenses primarily related to the equity capitalization issue described in Part I, Item I, Note 5 *Contingencies* , of this Quarterly Report on Form 10-Q and the strategic review. Excluding the \$0.6 million in expenses mentioned above, general and administrative expenses increased \$2.0 million period-over-period. The increase was due to increased labor expenses of \$1.1 million, increased credit card fees of \$0.2 million due to higher sales, increased depreciation and amortization expense of \$0.1 million, and an additional \$0.6 million in on-going expenses.

*Income Tax (expense)* . In our continuing assessment of the need for a valuation allowance, in accordance with applicable guidance, we considered our cumulative pre-tax loss after three years, adjusting for permanent items and the potential for accumulated taxable losses in 2011, given our first quarter results. Accordingly, we considered our pattern of recent losses and potential losses in 2011 to be relevant to our analysis. As a result of our assessment, we concluded that a valuation allowance of \$0.8 million was needed for the three months ended March 31, 2011, in addition to the \$6.3 million that was recorded for the year ended December 31, 2010.

Income tax expense decreased \$1.2 million, or 96.9%, to an insignificant amount for the three months ended March 31, 2011. This was a result of recognizing a loss before income taxes of \$2.2 million and the additional valuation allowance of \$0.8 million for the three months ended March 31, 2011 compared to an income before income taxes of \$3.7 million for the same period in the prior year.

**Liquidity and Capital Resources** The significant components of our working capital are cash and cash equivalents, securities available-for-sale, inventory and accounts receivable, primarily from credit card processors, reduced by accounts payable, and accrued expenses. Cash and cash equivalents consist of cash and money market accounts. The working capital characteristics of our business allow us to collect cash from sales to customers within a few business days of the related sale. In 2010 and 2011, we experienced a tightening of credit terms with our suppliers related to the legal proceedings discussed in Part I, Item I, Note 5 *Contingencies* , of this Quarterly Report on Form 10-Q. At March 31, 2011, we had approximately \$14.5 million in cash and cash equivalents and approximately \$8.8 million of securities available-for-sale and a working capital surplus of approximately \$20.2 million compared to approximately \$14.6 million in cash and cash equivalents and approximately \$10.9 million of securities available-for-sale and a working capital surplus of approximately \$22.4 million at December 31, 2010.

Our future capital requirements will depend on many factors, including:

- the rate of our revenue growth;
- the timing and extent of expenditures to enhance our website, network infrastructure, and transaction processing systems;
- the extent of our advertising and marketing programs;
- the levels of the inventory we maintain; and
- other factors relating to our business.

Amounts deposited with third party financial institutions exceed the Federal Deposit Insurance Corporation, or FDIC, and Securities Investor Protection Corporation, or SIPC, insurance limits, as applicable. These cash and cash equivalent balances could be impacted if the underlying financial institutions fail or are subjected to other adverse conditions in the financial markets. To date we have experienced no loss or lack of access to our cash and cash equivalents; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

Additional capital expenditures for the build-out and improvements of our North Carolina distribution facility and information technology enhancements to improve warehousing optimization in 2011 could range from \$3.0 million to \$5.0 million.

We may require additional financing in the future in order to execute our operating plan. We cannot predict whether future financing, if any, will be in the form of equity, debt, or a combination of both. We may not be able to obtain additional funds on a timely basis, on acceptable terms, or at all.

We believe that cash and cash equivalents currently on hand and cash flows from operations will be sufficient to continue our operations for the next twelve months.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP.

The preparation of these financial statements requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. Critical accounting policies are those that are the most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our most critical accounting policies pertain to revenue recognition, income taxes, stock-based compensation, contingencies, inventories, and goodwill. In applying such policies, we exercise our best judgment and best estimates. For a further discussion of these Critical Accounting Policies and Estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (the "SEC") on June 16, 2011 for the year ended December 31, 2010.



## Recently Issued Accounting Standards

Refer to Note 1 to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding recently issued accounting standards applicable to us.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in the value of market risk sensitive instruments caused by fluctuations in interest rates, foreign exchange rates and commodity prices. Changes in these factors could cause fluctuations in the results of our operations and cash flows. However, we do not believe that a change in market interest rates would have a material effect on our results of operations or financial condition. Although we derive a portion of our sales outside of the U.S., all of our sales are denominated in U.S. dollars. We have limited exposure to financial market risks, including changes in interest rates and foreign currency exchange rates. Inflation generally affects us by increasing costs of raw materials, labor and equipment. We do not believe that inflation had any material effect on our results of operations in the periods presented in our financial statements.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this Form 10-Q, we evaluated, under the supervision and with the participation of our Chief Executive Officer and Interim Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon this evaluation, the Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2011.

### Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

### Inherent Limitations on Effectiveness of Controls

Our disclosure controls and procedures include components of our internal control over financial reporting. Our management, including our Chief Executive Officer and Interim Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily 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. Further, 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 Vitacost have been detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 5 Contingencies, of our consolidated financial statements included in Part I, Item I of this Quarterly Report on Form 10-Q for a discussion on the nature of the legal proceedings against us, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2010, which we hereby incorporate by reference into this Quarterly Report on Form 10-Q, and which could materially affect our business, financial condition or operating results. While we believe that there have been no material changes from the risk factors previously disclosed on our Annual Report on Form 10-K, the risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED.]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

- 10.1 Employment Agreement dated February 16, 2011 between Vitacost.com, Inc. and Jeffrey Horowitz.(1)
- \*31.1 Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*31.2 Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \*32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed as an exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 22, 2011.

\* Filed herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VITACOST.COM, INC.

*/s/ Jeffrey J. Horowitz*

Name: Jeffrey J. Horowitz

Title: Chief Executive Officer

*/s/ Stephen E. Markert, Jr.*

Name: Stephen E. Markert, Jr.

Title: Interim Chief Financial Officer

Date: June 16, 2011

## INDEX TO EXHIBITS

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(1) Filed as an exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 22, 2011.

\* Filed herewith.

**Certifications**

I, Jeffrey J. Horowitz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vitacost.com, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*/s/ Jeffrey J. Horowitz*

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Jeffrey J. Horowitz  
Chief Executive Officer  
Date: June 16, 2011

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**Certifications**

I, Stephen E. Markert, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vitacost.com, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Stephen E. Markert, Jr.

Stephen E. Markert, Jr.  
Interim Chief Financial Officer  
Date: June 16, 2011

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2011 of Vitacost.com, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey J. Horowitz, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Jeffrey J. Horowitz*

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Jeffrey J. Horowitz  
Chief Executive Officer  
Date: June 16, 2011

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**CERTIFICATION OF INTERIM CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2011 of Vitacost.com, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen E. Markert, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Stephen E. Markert, Jr.*

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Stephen E. Markert, Jr.  
Interim Chief Financial Officer  
Date: June 16, 2011

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