

GAIAM, INC
Form 10-Q
August 09, 2010
Table of Contents

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

Commission File Number 0-27517

GAIAM, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: GAIAM, INC - Form 10-Q

COLORADO
 (State or other jurisdiction of
 incorporation or organization)

84-1113527
 (I.R.S. Employer
 Identification No.)

**833 WEST SOUTH BOULDER ROAD,
 LOUISVILLE, COLORADO 80027**

(Address of principal executive offices)

(303) 222-3600

(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 and 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 check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at August 5, 2010
Class A Common Stock (\$.0001 par value)	17,853,072
Class B Common Stock (\$.0001 par value)	5,400,000

Table of Contents

GAIAM, INC.

FORM 10-Q

INDEX

<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1. <u>Financial Statements (Unaudited):</u>	3
<u>Condensed consolidated balance sheets at June 30, 2010 and December 31, 2009</u>	4
<u>Condensed consolidated statements of operations for the Three and Six Months Ended June 30, 2010 and 2009</u>	5
<u>Condensed consolidated statements of cash flows for the Six Months Ended June 30, 2010 and 2009</u>	6
<u>Notes to interim condensed consolidated financial statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	14
Item 4. <u>Controls and Procedures</u>	15
<u>PART II. OTHER INFORMATION</u>	15
Item 1. <u>Legal Proceedings</u>	15
Item 1A. <u>Risk Factors</u>	15
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	15
Item 3. <u>Defaults Upon Senior Securities</u>	15
Item 4. <u>Reserved</u>	15
Item 5. <u>Other Information</u>	15
Item 6. <u>Exhibits</u>	16
<u>SIGNATURES</u>	17

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements that involve risks and uncertainties. The words anticipate, believe, plan, estimate, expect, strive, future, intend and similar expressions are intended to identify such forward-looking statements. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures about Market Risk and elsewhere in this report. Risks and uncertainties that could cause actual results to differ include, without limitation, general economic conditions, competition, loss of key personnel, pricing, brand reputation, consumer trends, acquisitions, new initiatives undertaken by us, security and information systems, legal liability for website content, merchandise supply problems, failure of third parties to provide adequate service, our reliance on centralized customer service, overstocks and merchandise returns, our reliance on a centralized fulfillment center, increases in postage and shipping costs, E-commerce trends, future Internet related taxes, our founder's control of us, fluctuations in quarterly operating results, customer interest in our products, the effect of government regulation and other risks and uncertainties included in our filings with the Securities and Exchange Commission. We caution you that no forward-looking statement is a guarantee of future performance, and you should not place undue reliance on these forward-looking statements which reflect our view only as of the date of this report. We undertake no obligation to update any forward-looking information.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Unaudited Interim Condensed Consolidated Financial Statements

We have prepared our unaudited interim condensed consolidated financial statements included herein pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to these rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, the unaudited interim condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, our consolidated financial position as of June 30, 2010, the interim results of operations for the three and six months ended June 30, 2010 and 2009, and cash flows for the six months ended June 30, 2010 and 2009. These interim statements have not been audited. The balance sheet as of December 31, 2009 was derived from our audited consolidated financial statements included in our annual report on Form 10-K. The interim condensed consolidated financial statements contained herein should be read in conjunction with our audited financial statements, including the notes thereto, for the year ended December 31, 2009.

Table of Contents**GAIAM, INC.****Condensed consolidated balance sheets**

(in thousands, except share and per share data)	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43,035	\$ 48,325
Accounts receivable, net	35,064	46,266
Inventory, less allowances	25,183	26,872
Deferred advertising costs	2,706	1,909
Receivable and deferred tax assets	9,047	10,179
Other current assets	4,870	5,681
Total current assets	119,905	139,232
Property and equipment, net	27,834	28,217
Media library, net	15,293	12,354
Deferred tax assets, net	6,197	4,414
Goodwill	24,166	24,166
Other intangibles, net	538	652
Notes receivable and other assets	3,138	3,178
Total assets	\$ 197,071	\$ 212,213
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 24,739	\$ 33,261
Accrued liabilities	7,431	11,061
Total current liabilities	32,170	44,322
Commitments and contingencies		
Equity:		
Gaiam, Inc. shareholders' equity:		
Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 17,853,072 and 17,721,212 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	2	2
Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at June 30, 2010 and December 31, 2009	1	1
Additional paid-in capital	160,274	162,532
Accumulated other comprehensive income	85	85
Accumulated deficit	(10,772)	(9,979)
Total Gaiam, Inc. shareholders' equity	149,590	152,641
Noncontrolling interest	15,311	15,250
Total equity	164,901	167,891
Total liabilities and equity	\$ 197,071	\$ 212,213

See accompanying notes to the interim condensed consolidated financial statements.

Table of Contents**GAIAM, INC.****Condensed consolidated statements of operations**

(in thousands, except per share data)	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2010	2009	2010	2009
	(unaudited)		(unaudited)	
Net revenue	\$ 56,426	\$ 60,475	\$ 118,609	\$ 116,398
Cost of goods sold	27,501	29,029	57,472	53,966
Gross profit	28,925	31,446	61,137	62,432
Expenses:				
Selling and operating	27,001	30,685	56,785	64,628
Corporate, general and administration	3,044	2,937	6,035	6,206
Total expenses	30,045	33,622	62,820	70,834
Loss from operations	(1,120)	(2,176)	(1,683)	(8,402)
Interest and other income	72	61	139	135
Loss before income taxes and noncontrolling interest	(1,048)	(2,115)	(1,544)	(8,267)
Income tax benefit	(553)	(838)	(730)	(3,087)
Net loss	(495)	(1,277)	(814)	(5,180)
Net (income) loss attributable to noncontrolling interest	(48)	268	21	1,081
Net loss attributable to Gaiam, Inc.	\$ (543)	\$ (1,009)	\$ (793)	\$ (4,099)
Net loss per share attributable to Gaiam, Inc. common shareholders:				
Basic	\$ (0.02)	\$ (0.04)	\$ (0.03)	\$ (0.17)
Diluted	\$ (0.02)	\$ (0.04)	\$ (0.03)	\$ (0.17)
Weighted-average shares outstanding:				
Basic	23,243	23,076	23,192	23,514
Diluted	23,243	23,076	23,192	23,514

See accompanying notes to the interim condensed consolidated financial statements.

Table of Contents**GAIAM, INC.****Condensed consolidated statements of cash flows**

(in thousands)	For the Six Months	
	2010	2009
	Ended June 30, (unaudited)	
Operating activities		
Net loss	\$ (814)	\$ (5,180)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,554	1,559
Amortization	2,104	1,986
Share-based compensation expense	742	993
Deferred and stock option income tax benefit	(948)	(2,943)
Changes in operating assets and liabilities:		
Accounts receivable, net	11,202	12,093
Inventory, net	2,040	12,531
Deferred advertising costs	(1,492)	(45)
Income taxes receivable	49	2,731
Other current assets	630	59
Accounts payable	(8,522)	(5,477)
Accrued liabilities	(4,750)	(1,213)
Net cash provided by operating activities	1,795	17,094
Investing activities		
Purchase of property, equipment and media rights	(4,395)	(3,368)
Net cash used in investing activities	(4,395)	(3,368)
Financing activities		
Payment of dividends	(3,478)	(194)
Net proceeds from issuance of common stock and tax benefits from option exercises	788	68
Repurchase of Class A common stock, including related costs		(2,810)
Net cash used in financing activities	(2,690)	(2,936)
Net change in cash and cash equivalents		