

GAIAM INC
Form 10-Q
November 09, 2007

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

Form 10-Q

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

For the quarterly period ended September 30, 2007

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)

COLORADO
(State or other jurisdiction of
incorporation or organization)

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

360 INTERLOCKEN BLVD.
BROOMFIELD, COLORADO 80021
(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 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

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

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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 November 6, 2007
Class A Common Stock (\$.0001 par value)	19,386,043
Class B Common Stock (\$.0001 par value)	5,400,000

GAIAM, INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements that involve risks and uncertainties. When used in discussion, the words anticipate, believe, plan, estimate, expect, strive, future, intend and similar expressions as they relate to Gaiam or its management are intended to identify such forward-looking statements. Gaiam's 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 Gaiam, 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, control of Gaiam by its founder, fluctuations in quarterly operating results, customer interest in our products, the effect of government regulation and other risks and uncertainties included in Gaiam's 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 management's 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

The unaudited interim condensed consolidated financial statements included herein have been prepared by the management of Gaiam 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 the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of management, the unaudited interim condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, Gaiam's consolidated financial position as of September 30, 2007, the interim results of operations for the three and nine months ended September 30, 2007 and 2006, and cash flows for the nine months ended September 30, 2007 and 2006. These interim statements have not been audited. The balance sheet as of December 31, 2006 was derived from Gaiam's audited consolidated financial statements included in Gaiam's annual report on Form 10-K. The interim condensed consolidated financial statements contained herein should be read in conjunction with Gaiam's audited financial statements, including the notes thereto, for the year ended December 31, 2006.

GAIAM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share information)

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 81,565	\$ 104,876
Accounts receivable, net	12,879	25,324
Inventory, net	27,421	24,313
Deferred advertising costs	4,789	3,965
Deferred tax assets	4,700	3,404
Other current assets	6,449	4,965
Total current assets	137,803	166,847
Property and equipment, net	8,673	7,784
Media library, net	35,673	37,201
Goodwill and other intangibles	39,862	28,879
Deferred tax assets, net	4,111	5,958
Notes receivable and other assets	987	4,299
Total assets	\$ 227,109	\$ 250,968
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 17,060	\$ 18,848
Accrued liabilities	10,531	7,437
Income taxes payable	888	415
Total current liabilities	28,479	26,700
Minority interest	5,961	5,662
Commitments and contingencies		
Stockholders equity:		
Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 19,361,373 and 21,749,936 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	2	2
Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at September 30, 2007 and December 31, 2006	1	1
Additional paid-in capital	170,387	200,906
Accumulated other comprehensive income	1,131	873
Retained earnings	21,148	16,824
Total stockholders equity	192,669	218,606
Total liabilities and stockholders equity	\$ 227,109	\$ 250,968

See accompanying notes to the interim condensed consolidated financial statements.

GAIAM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(In thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Net revenue	\$ 70,318	\$ 51,786	\$ 181,137	\$ 146,699
Cost of goods sold	24,174	19,157	63,886	54,017
Gross profit	46,144	32,629	117,251	92,682
Expenses:				
Selling and operating	37,875	27,963	101,377	82,885
Corporate, general and administration	4,073	3,656	11,980	10,452
Total expenses	41,948	31,619	113,357	93,337
Income (loss) from operations	4,196	1,010	3,894	(655)
Other income	1,028	1,512	3,375	2,639
Income before income taxes and minority interest	5,224	2,522	7,269	1,984
Income tax expense	2,060	977	2,868	784
Minority interest in net (income) loss of consolidated subsidiaries, net of tax	(246)	108	(77)	178
Net income	\$ 2,918	\$ 1,653	\$ 4,324	\$ 1,378
Net earnings per share:				
Basic	\$ 0.12	\$ 0.06	\$ 0.17	\$ 0.06
Diluted	\$ 0.12	\$ 0.06	\$ 0.17	\$ 0.06
Shares used in computing net earnings per share:				
Basic	24,705	26,705	25,000	23,450
Diluted	24,970	26,864	25,222	23,697

See accompanying notes to the interim condensed consolidated financial statements.

GAIAM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	For the Nine Months Ended September 30,	
	2007	2006
Operating activities		
Net income	\$ 4,324	\$ 1,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,395	1,593
Amortization	7,215	3,948
Minority interest	77	(178)
Noncash gain from equity investment	(127)	(680)
Noncash loss on disposal of property	265	
Noncash stock-based compensation	832	365
Deferred income tax expense	677	644
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	13,233	14,074
Inventory, net	(3,097)	(4,089)
Deferred advertising costs	(2,256)	(2,436)
Other current assets	(1,757)	(1,111)
Accounts payable	(2,983)	(7,382)
Accrued liabilities	2,297	(5,549)
Income taxes payable	476	
Net cash provided by operating activities	20,571	577
Investing activities		
Purchase of property, equipment and media rights	(5,133)	(1,854)
Proceeds from sale of property and equipment		637
Purchase of acquisitions and investments, net of cash acquired	(10,801)	(6,582)
Proceeds from sale of investments	3,871	
Net cash used in investing activities	(12,063)	(7,799)
Financing activities		
Repurchase of Class A common stock, including related costs	(32,907)	
Proceeds from issuance of common stock, net of related costs	753	96,609
Net cash (used in) provided by financing activities	(32,154)	96,609
Effects of exchange rates on cash and cash equivalents	335	540
Net change in cash and cash equivalents	(23,311)	89,927
Cash and cash equivalents at beginning of period	104,876	15,028
Cash and cash equivalents at end of period	\$ 81,565	\$ 104,955
Supplemental cash flow information		
Income taxes paid	\$ 3,042	\$
Common stock issued for acquisitions	\$ 491	\$ 1,933

See accompanying notes to the interim condensed consolidated financial statements.

