

GAIAM, INC
Form 10-Q
August 08, 2014
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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 EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 000-27517

GAIAM, INC.

(Exact name of registrant as specified in its charter)

COLORADO **84-1113527**
 (State or other jurisdiction of **(I.R.S. Employer**
 incorporation or organization) **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 1, 2014
	18,887,587

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Class A Common Stock (\$.0001 par
value)

Class B Common Stock (\$.0001 par
value)

5,400,000

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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, the potential separation of our subscription unit from the Gaiam-branded business resulting in two separate publicly traded companies 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 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, 2014, the interim results of operations for the three and six months ended June 30, 2014 and 2013, and cash flows for the six months ended June 30, 2014 and 2013. These interim statements have not been audited. The balance sheet as of December 31, 2013 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, 2013.

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

(in thousands, except share and per share data)	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash	\$ 30,850	\$ 32,229
Accounts receivable, net	23,308	31,399
Inventory, less allowances	18,298	20,275
Deferred advertising costs	1,029	311
Advances	1,753	1,078
Other current assets	11,324	8,081
Current assets of discontinued operations	1,877	1,879
Total current assets	88,439	95,252
Property and equipment, net	22,787	22,540
Media library, net	5,963	5,211
Goodwill	13,939	13,999
Other intangibles, net	730	1,155
Other assets	718	1,835
Noncurrent assets of discontinued operations		10
Total assets	\$ 132,576	\$ 140,002
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 9,534	\$ 11,697
Accrued liabilities	18,952	17,503
Participations payable	581	3,916
Current liabilities of discontinued operations	739	1,596
Total current liabilities	29,806	34,712
Commitments and contingencies		
Equity:		
Gaiam, Inc. shareholders' equity:		
Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 18,865,587 and 18,595,121 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	2	2
Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at June 30, 2014 and December 31, 2013	1	1
Additional paid-in capital	169,871	167,875
Accumulated other comprehensive loss	(138)	(33)

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Accumulated deficit	(70,935)	(66,413)
Total Gaiam, Inc. shareholders equity	98,801	101,432
Noncontrolling interest	3,969	3,858
Total equity	102,770	105,290
Total liabilities and equity	\$ 132,576	\$ 140,002

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 Ended		For the Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Net revenue	\$ 32,451	\$ 31,897	\$ 70,062	\$ 68,576
Cost of goods sold	16,983	18,583	37,574	39,512
Gross profit	15,468	13,314	32,488	29,064
Expenses:				
Selling and operating	15,230	14,437	31,638	29,819
Corporate, general and administration	2,782	2,616	5,847	5,537
Other general expense	611	308	636	911
Total expenses	18,623	17,361	38,121	36,267
Loss from operations	(3,155)	(4,047)	(5,633)	(7,203)
Interest and other income	27	93	65	62
Gain on sale of investments	1,042	16,429	1,480	16,429
(Loss) income before income taxes and noncontrolling interest	(2,086)	12,475	(4,088)	9,288
Income tax expense	130	4,363	226	3,379
Net (loss) income from continuing operations	(2,216)	8,112	(4,314)	5,909
Income (loss) from discontinued operations, net of tax	2	(129)	28	1,852
Net (loss) income	(2,214)	7,983	(4,286)	7,761
Net income attributable to noncontrolling interest	(174)	(135)	(236)	(189)
Net (loss) income attributable to Gaiam, Inc.	\$ (2,388)	\$ 7,848	\$ (4,522)	\$ 7,572
Net (loss) income per share attributable to Gaiam, Inc. common shareholders basic and diluted:				
From continuing operations	\$ (0.10)	\$ 0.36	\$ (0.19)	\$ 0.25
From discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.00	\$ 0.08
Basic and diluted net (loss) income per share attributable to Gaiam, Inc.	\$ (0.10)	\$ 0.35	\$ (0.19)	\$ 0.33

Weighted-average shares outstanding:

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Basic and diluted	24,090	22,741	24,048	22,736
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See accompanying notes to the interim condensed consolidated financial statements.

Table of Contents**GAIAM, INC.****Condensed consolidated statements of comprehensive loss**

(in thousands, except per share data)	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Net (loss) income	\$ (2,214)	\$ 7,983	\$ (4,286)	\$ 7,761
Accumulated other comprehensive income (loss):				
Foreign currency translation (loss) gain, net of tax	26	(171)	37	(169)
Unrealized (loss) gain on equity security, net of tax	(30)		202	
Reclassification of gain on equity security to net income, net of tax	(319)		(319)	
Comprehensive (loss) income	(2,537)	7,812	(4,366)	7,592
Less: comprehensive income attributable to the noncontrolling interest	(9)	(53)	(25)	(108)
Comprehensive (loss) income attributable to Gaiam, Inc.	\$ (2,546)	\$ 7,759	\$ (4,391)	\$ 7,484

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 Ended June 30,	
	2014	2013
	(unaudited)	
Operating activities		
Net (loss) income	\$ (4,286)	\$ 7,761
Income from discontinued operations	(28)	(1,852)
Net (loss) income from continuing operations	(4,314)	5,909
Adjustments to reconcile net (loss) income from continuing operations to net cash (used in) provided by operating activities- continuing operations:		
Depreciation	982	1,119
Amortization	1,239	717
Share-based compensation expense	715	354
Deferred and stock option income tax expense		4,415
(Gain) loss on translation of foreign currency	(36)	42
Gain on sale of investments	(1,480)	(16,429)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	8,157	9,503
Inventory, net	2,015	(909)
Deferred advertising costs	(1,043)	497
Advances	(675)	253
Other current assets	(3,517)	(3,913)
Accounts payable	(2,199)	(1,426)
Participations payable	(3,334)	(1,863)
Accrued liabilities	1,417	3,437
Net cash (used in) provided by operating activities continuing operations	(2,073)	1,706
Net cash used in operating activities discontinued operations	(818)	(3,716)
Net cash used in operating activities	(2,891)	(2,010)
Investing activities		
Proceeds from sale of investments	2,646	16,429
Purchase of property, equipment and media rights	(2,411)	(1,956)
Purchase of businesses, net of acquired cash		(321)
Net cash provided by investing activities continuing operations	235	14,152
Net cash provided by investing activities discontinued operations		
Net cash provided by investing activities	235	14,152

Financing activities

Proceeds from issuance of stock	1,326
Dividends paid to noncontrolling interest	(150)