EL PASO NATURAL GAS CO
Form 8-K
July 16, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report: July 16, 2003
(Date of Earliest Event Reported: July 16, 2003)

EL PASO NATURAL GAS COMPANY
(Exact Name of Registrant as Specified in its Charter)

Delaware	1-2700	74-0608280
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

El Paso Building
1001 Louisiana Street
Houston, Texas 77002
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (713) 420-2600

Item 7. Financial Statements and Exhibits

None.

Item 9. Regulation FD

On July 16, 2003, we completed a private offering of $355 million principal amount of our senior notes due 2010. In the preliminary offering memorandum for the senior notes, we disclosed information regarding our existing rate settlement that has not been previously publicly reported. Specifically, we disclosed that once the risk sharing period expires, which is December 31, 2003, our annual revenues will decrease by approximately $23 million. See our Form 10-Q for the quarterly period ended March 31, 2003 for additional information regarding our rate settlement and its risk sharing provisions. This disclosure is being furnished to comply with Regulation FD. The information disclosed in this Current Report on Form 8-K is not considered "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 and is not subject to the liabilities of that section.

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.

EL PASO NATURAL GAS COMPANY

By: /s/ Greg G. Gruber

Greg G. Gruber
Senior Vice President, Chief Financial Officer, Treasurer and Director
(Principal Financial Officer)

Date: July 16, 2003

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Expenses:

Selling and operating	21,771	22,943	72,828	63,437
Corporate, general and administration	2,471	2,123	8,125	6,623

Acquisition-related costs		1,667		
Total expenses	24,242	25,066	82,620	70,060

Loss from operations

(171) (1,005) (3,432) (7,926)

Interest and other income (expense)

(192) 89 (259) 203

Loss from equity method investment in RSOL

(15,940) (179) (17,580) (756)

Loss before income taxes and noncontrolling interest

(16,303) (1,095) (21,271) (8,479)

Income tax benefit

(5,377) (205) (6,938) (2,631)

Net loss

(10,926) (890) (14,333) (5,848)

Net income attributable to noncontrolling interest

(231) (252) (96) (168)

Net loss attributable to Gaiam, Inc.

$(11,157) $(1,142) $(14,429) $(6,016)

Net loss per share attributable to Gaiam, Inc. common shareholders:

Basic

$(0.49) $(0.05) $(0.64) $(0.26)

Diluted	$(0.49)	$(0.05)	$(0.64)	$(0.26)
Weighted-average shares outstanding:				
Basic	22,704	23,205	22,702	23,272

Diluted				
	22,704	23,205	22,702	23,272

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

Net revenue. Excluding our formerly consolidated subsidiary, Real Goods Solar, which was deconsolidated on December 31, 2011 (refer to the Supplemental Pro Forma Financial Information above), net revenue increased $1.2 million, or 3.0%, during the third quarter of 2012 as compared to the third quarter of 2011. Net revenue in our business segment increased $7.5 million, or 38.6%, to $27.1 million during the third quarter of 2012 from $19.5 million during the third quarter of 2011, due to 15.2% internal growth from continued strength at our large retailers and our acquisition of media distributor Gaiam Vivendi Entertainment at the end of March 2012. Net revenue in our direct to consumer segment decreased $6.3 million, or 28.4%, to $15.9 million during the third quarter of 2012 from $22.2 million during the third quarter of 2011, primarily attributable to a $5.4 million decreased in sales in our direct response marketing business due to our strategic reduction of media spend and, thus, optimization of profitability as opposed to revenue generation during the Olympic Games and political campaign advertising season. Including Real Goods Solar, net revenue decreased $30.4 million, or 41.4%, to $43.0 million during the third quarter of 2012 from $73.3 million during the third quarter of 2011.

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Cost of goods sold. Excluding Real Goods Solar, cost of goods sold increased $1.2 million, or 6.9%, during the third quarter of 2012 as compared to the third quarter of 2011 and, as a percentage of net revenue, increased to 44.0% during the third quarter of 2012 from 42.4% during the third quarter of 2011. Cost of goods sold in our business segment increased $2.1 million, or 21.9%, to $11.8 million during the third quarter of 2012 from $9.7 million during the third quarter of 2011 and, as a percentage of net revenue, decreased to 43.8% during the third quarter of 2012 from 49.8% during the third quarter of 2011, primarily due to a shift in product sales mix resulting from our Gaiam Vivendi Entertainment business that has no cost of goods sold as we report this business revenue on a net basis. Cost of goods sold in our direct to consumer segment decreased $0.9 million, or 11.3%, to $7.1 million during the third quarter of 2012 from $8.0 million during the third quarter of 2011 and, as a percentage of net revenue, increased to 44.4% during the third quarter of 2012 from 35.8% during the third quarter of 2011, primarily due to reduced revenue in our direct response marketing business that typically generates lower associated cost of goods sold. Including Real Goods Solar, cost of goods sold decreased $22.5 million, or 54.3%, to $18.9 million during the third quarter of 2012 from $41.4 million during the third quarter of 2011.

Selling and operating expenses. Excluding Real Goods Solar, selling and operating expenses decreased $1.2 million, or 5.1%, during the third quarter of 2012 as compared to the third quarter of 2011 and, as a percentage of net revenue, decreased to 50.7% during the third quarter of 2012 from 54.9% during the third quarter of 2011, primarily due to decreased television advertising spend, partially offset by increased costs from the acquisition of Gaiam Vivendi Entertainment. Including Real Goods Solar, selling and operating expenses decreased $8.1 million, or 27.1%, to $21.8 million during the third quarter of 2012 from $30.0 million during the third quarter of 2011.

Corporate, general and administration expenses. Excluding Real Goods Solar, corporate, general and administration expenses increased $0.4 million, or 16.4%, during the third quarter of 2012 as compared to the third quarter of 2011 and, as a percentage of net revenue, increased to 5.7% during the third quarter of 2012 from 5.1% during the third quarter of 2011, primarily as a result of some minimal additional overhead related to our acquisition of Gaiam Vivendi Entertainment. Including Real Goods Solar, corporate, general and administration expenses decreased $0.8 million, or 25.4%, to $2.5 million during the third quarter of 2012 from $3.3 million during the third quarter of 2011.

Loss from equity method investment. Loss from equity method investment was $15.9 million during the third quarter of 2012 and represents our noncash portion, $14.3 million, of Real Goods Solar s net loss for the quarter, which included noncash impairment charges to its goodwill, deferred tax assets, and other assets of $36.5 million. Our recognition of this noncash equity investment loss reduced the GAAP carrying values of our investment in and loan to Real Goods Solar to zero. As a result, we will not report any potential future net losses from Real Goods Solar. Additionally, based on Real Goods Solar s establishment of a valuation allowance for all its net deferred tax assets, we recognized a noncash charge of $1.6 million in loss from equity method investment to reduce to zero the deferred tax asset related to our tax sharing agreement with Real Goods Solar. Due to related income tax benefits as discussed below, the net impact to us of these equity investment related transactions was a noncash loss of $10.8 million.

Income tax benefit. Income tax benefit during the third quarter of 2012 was increased by $5.1 million due to the reducing of a deferred tax liability related to the carrying value of our equity method investment in Real Goods Solar and the recognition of a deferred tax asset related to the reduction of the carrying value of our loan to Real Goods Solar.

Net loss attributable to Gaiam, Inc. As a result of the above factors, net loss attributable to Gaiam, Inc. was $11.2 million, or $0.49 per share, during the third quarter of 2012 compared to a loss of $1.2 million, or $0.05 per share, during the third quarter of 2011. Excluding our loss from equity method investment and its related income tax benefits, our non-GAAP net loss for the third quarter of 2012 would have been $0.4 million or $0.01 per share. (Refer to the Non-GAAP Financial Measures table below.)

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Net revenue. Excluding our formerly consolidated subsidiary, Real Goods Solar, which was deconsolidated on December 31, 2011 (refer to the Supplemental Pro Forma Financial Information above), net revenue increased $25.9 million, or 23.5%, during the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011. Net revenue in our business segment increased $27.8 million, or 51.9%, to $81.4 million during the nine months ended September 30, 2012 from $53.6 million during the nine months ended September 30, 2011, due to better sales performance at our top 25 retailers, our acquisition of media distributor Gaiam Vivendi Entertainment at the end of March 2012 and our media aggregator role for Target that commenced during the fourth quarter of 2011. Net revenue in our direct to consumer segment decreased $1.9 million, or 3.4%, to $54.4 million during the nine months ended September 30, 2012 from $56.3 million during the nine months ended September 30, 2011, primarily attributable to decreased sales in our direct response marketing business due to our strategic reduction of media spend and, thus, optimization of profitability as opposed to revenue during the Olympic Games and political campaign season. Including Real Goods Solar, net revenue decreased $43.1 million, or 24.1%, to $135.8 million during the nine months ended September 30, 2012 from $178.9 million during the nine months ended September 30, 2011.

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Cost of goods sold. Excluding Real Goods Solar, cost of goods sold increased $8.8 million, or 18.5%, during the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 and, as a percentage of net revenue, decreased to 41.7% during the nine months ended September 30, 2012 from 43.5% during the nine months ended September 30, 2011. Cost of goods sold in our business segment increased $8.9 million, or 31.9%, to $36.8 million during the nine months ended September 30, 2012 from $27.9 million during the nine months ended September 30, 2011 and, as a percentage of net revenue, decreased to 45.2% during the nine months ended September 30, 2012 from 52.1% during the nine months ended September 30, 2011, primarily due to a shift in product sales mix resulting from our Gaiam Vivendi Entertainment business that has no cost of goods sold. Cost of goods sold in our direct to consumer segment decreased $0.1 million, or 0.4%, to $19.8 million during the nine months ended September 30, 2012 from $19.9 million during the nine months ended September 30, 2011 and, as a percentage of net revenue, increased to 36.4% during the nine months ended September 30, 2012 from 35.3% during the nine months ended September 30, 2011, primarily due to reduced revenue in our direct response marketing business that typically generates lower associated cost of goods sold. Including Real Goods Solar, cost of goods sold decreased $41.9 million, or 42.6%, to $56.6 million during the nine months ended September 30, 2012 from $98.5 million during the nine months ended September 30, 2011.

Selling and operating expenses. Excluding Real Goods Solar, selling and operating expenses increased $9.4 million, or 14.8%, during the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 and, as a percentage of net revenue, decreased to 53.6% during the nine months ended September 30, 2012 from 57.7% during the nine months ended September 30, 2011, primarily due to the acquisition of Gaiam Vivendi Entertainment and our media aggregator role for Target that commenced during the fourth quarter of 2011. Including Real Goods Solar, selling and operating expenses decreased $6.4 million, or 8.1%, to $72.8 million during the nine months ended September 30, 2012 from $79.2 million during the nine months ended September 30, 2011.

Corporate, general and administration expenses. Excluding Real Goods Solar, corporate, general and administration expenses increased $1.5 million, or 22.7%, during the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 and, as a percentage of net revenue, remained consistent with the same period last year at 6.0%, primarily as a result of nonrecurring Gaiam Vivendi Entertainment integration and transition costs and the incremental cost of stock option modifications. Including Real Goods Solar, corporate, general and administration expenses decreased $1.0 million, or 11.1%, to $8.1 million during the nine months ended September 30, 2012 from $9.1 million during the nine months ended September 30, 2011.

Acquisition-related costs. Acquisition-related costs were $1.7 million during the nine months ended September 30, 2012 and were the result of our acquisition of Gaiam Vivendi Entertainment.

Loss from equity method investment. Loss from equity method investment was $17.6 million during the nine months ended September 30, 2012 and represents our noncash portion, $16.0 million, of Real Goods Solar s net loss for nine months ended September 30, 2012, which included noncash impairment charges to its goodwill, deferred tax assets, and other assets of $36.5 million. Our recognition of this noncash equity investment loss reduced the GAAP carrying values of our investment in and loan to Real Goods Solar to zero. As a result, we will not report any potential future net losses from Real Goods Solar. Additionally, based on Real Goods Solar s establishment of a valuation allowance for all its net deferred tax assets, we recognized a noncash charge of $1.6 million in loss from equity method investment to reduce to zero the deferred tax asset related to our tax sharing agreement with Real Goods Solar. Due to related income tax benefits as discussed below, the net impact to us of these equity investment related transactions was a noncash loss of $11.9 million.

Income tax benefit. Income tax benefit during the nine months ended September 30, 2012 was increased by $5.7 million due to the reducing of a deferred tax liability related to the carrying value of our equity method investment in Real Goods Solar and the recognition of a deferred tax asset related to the reduction of the carrying value of our loan to Real Goods Solar.

Net loss attributable to Gaiam, Inc. As a result of the above factors, net loss attributable to Gaiam, Inc. was $14.4 million, or $0.64 per share, during the nine months ended September 30, 2012 compared to a loss of $6.4 million, or $0.27 per share, during the nine months ended September 30, 2011. Excluding our acquisition-related costs and loss from equity method investment and its related income tax benefits, our non-GAAP net loss for the nine months ended September 30, 2012 would have been $1.4 million or $0.08 per share. (Refer to the Non-GAAP Financial Measures table below.)

Non-GAAP Financial Measures

We have utilized the non-GAAP information set forth below as an additional device to aid in understanding and analyzing of our financial results for the three and nine months ended September 30, 2012. We believe that these non-GAAP measures will allow for a better evaluation of the operating performance of our business and facilitate meaningful comparison of the results in the current period to those in prior periods and future periods. Reference to these non-GAAP measures should not be considered a substitute for results that are presented in a manner consistent with GAAP.

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A reconciliation of GAAP net loss to the non-GAAP net loss is set forth below as indicated (unaudited, in millions):

	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2012
Net loss attributable to Gaiam, Inc.	$ (11.2)	$ (14.4)
Exclusion of acquisition-related costs (net of taxes of $0.6 million) (a)		1.1
Exclusion of loss from equity method investment (net of taxes of $5.1 million and $5.7 million, respectively) (a)	10.8	11.9
Non-GAAP net loss attributable to Gaiam, Inc.	$ (0.4)	$ (1.4)

A reconciliation of GAAP net loss per share to the non-GAAP net loss per share is set forth below as indicated (unaudited):

	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2012
Net loss per share attributable to Gaiam, Inc. common shareholders diluted	$ (0.49)	$ (0.64)
Exclusion of acquisition-related costs per share (net of taxes of $0.02 per share) (a)		0.04
Exclusion of loss from equity method investment per share (net of taxes of $0.22 per share and $0.25 per share, respectively) (a)	0.48	0.52
Non-GAAP net loss per share attributable to Gaiam, Inc. common shareholders diluted	$ (0.01)	$ (0.08)
Weighted average shares used in net loss per share calculations diluted	22,704,000	22,702,000

(a) Income taxes were computed at an effective tax rate of approximately 35.5%.

Seasonality

Our sales are affected by seasonal influences. On an aggregate basis, we generate our strongest revenues and net income in the fourth quarter due to increased holiday spending and retailer fitness purchases.

Liquidity and Capital Resources

Our capital needs arise from working capital required to fund operations, capital expenditures related to acquisition and development of media content, development of our ecommerce and digital platforms and new products, acquisitions of new businesses, replacements, expansions and improvements to our infrastructure, and future growth. These capital requirements depend on numerous factors, including the rate of market acceptance of our product offerings, our ability to expand our customer base, the cost of ongoing upgrades to our product offerings, the level of expenditures for sales and marketing, the level of investment in distribution systems and facilities and other factors. The timing and amount of these capital requirements are variable and we cannot accurately predict them. Additionally, we will continue to pursue opportunities to expand our media libraries, evaluate possible investments in businesses, products and technologies, and increase our sales and marketing programs and brand promotions as needed. We estimate that our capital expenditures will total approximately $4.0 million for 2012.

On July 31, 2012, each of our subsidiaries Gaiam Americas, Inc., SPRI Products, Inc., GT Direct, Inc., and Gaiam Vivendi Entertainment (collectively the Borrowers) entered into a Revolving Credit and Security Agreement (the Credit Agreement) with PNC Bank, N.A. (PNC), as agent and lender. Borrowings are secured by a pledge of the Borrowers assets. The Credit Agreement provides for a revolving line of credit of up to $35 million, subject to borrowing base and related limitations. Subject to certain limitations, the principal amount of the revolving loan is due and payable on the earlier of July 30, 2015 or upon the termination of the Credit Agreement.

For advances that are not Eurodollar rate loans, referred to as domestic rate loans in the Credit Agreement, annual interest will accrue at a rate equal to 0.75% plus the higher of (i) PNC s stated commercial lending rate in effect on such day, (ii) the Federal Funds Open Rate (as defined in the Credit Agreement; essentially the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as published by Bloomberg) in effect on such day plus 0.5%, and (iii) the sum of the Daily LIBOR Rate (as defined in the Credit Agreement; essentially the rate resulting from dividing (x) the daily London Interbank Offered Rates published in the Wall Street Journal for a one month period by (y) a number equal to 1.00 minus the Board of Governors of the Federal Reserve System s reserve percentage with respect to eurocurrency funding) in effect on such day plus 1.0%. The Borrowers may also obtain Eurodollar rate loans under the revolving line of credit. Eurodollar rate loans will accrue annual interest at a rate equal to the sum of 2.25% plus the Eurodollar Rate (as defined in the Credit Agreement; essentially the rate resulting from dividing (x) the rates at which US dollar deposits are offered by leading banks in the London interbank deposit market as published by Bloomberg, by (y) a number equal to 1.00 minus the Board of Governors of the Federal Reserve System s reserve percentage with respect to eurocurrency funding). Interest will be payable monthly in arrears for domestic rate loans and at the end of each interest period for Eurodollar rate loans. Upon and after the occurrence of an event of default, and during the continuation thereof, at the option of PNC or at the direction of a certain specified number of lenders, outstanding advances will bear interest at the interest rate set forth above for domestic rate loans plus 2% per year.

The Borrowers paid a fee of $175,000 to PNC in consideration for entering into the Credit Agreement and will pay PNC a fee equal to 0.5% per year on the undrawn amount of the revolving line of credit. The Credit Agreement permits voluntary prepayments of amounts borrowed and reductions or terminations of the revolving commitments pursuant to notice requirements. The Borrowers must also prepay the advances in amounts equal to the net proceeds of certain sales of collateral and the net proceeds of certain issuances of equity interest or indebtedness. The Borrowers must pay an early termination fee equal to 2% of the maximum amount of the revolving line of credit if the Borrowers prepay all advances before July 31, 2013, and an early termination fee equal to 1% of the maximum amount of the revolving line of credit if the Borrowers prepay all advances before July 31, 2014. The Credit Agreement subjects the Company to certain customary affirmative covenants and customary restrictive covenants, including, but not limited to, restrictions on the Company s ability to incur additional indebtedness, create liens, make investments, pay dividends, and merge. In addition, the Credit Agreement contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, and covenant defaults. If an event of default occurs and is continuing, amounts due under the Credit Agreement may be accelerated and the rights and remedies of the lenders under the Credit Agreement may be exercised.

In conjunction with entering into the Credit Agreement, on August 1, 2012, we paid in full the outstanding balance owed to our prior senior lender, Wells Fargo Bank, National Association, in the amount of $14.1 million and terminated the underlying Amended and Restated Credit Agreement, dated July 29, 2005, between Gaiam and Wells Fargo.

As of September 30, 2012, the outstanding borrowings on the Credit Agreement were approximately $20.9 million at an average annual interest rate of approximately 3.64% and the amount reserved for outstanding letters of credit and other reserves was $9.8 million.

Cash Flows

The following table summarizes our primary sources (uses) of cash during the periods presented:

	Nine Months Ended September 30,	
(in thousands)	**2012**	**2011**
Net cash provided by (used in):		
Operating activities	$ 19,400	$ 426
Investing activities	(16,591)	3,322
Financing activities	1,639	(5,080)
Effects of exchange rates on cash	64	5
Net change in cash	$ 4,512	$ (1,327)

Operating activities. Our operating activities provided net cash of $19.4 million and $0.4 million during the nine months ended September 30, 2012 and 2011, respectively. Our net cash provided by operating activities during the nine months ended September 30, 2012 was primarily attributable to decreased accounts receivables of $22.0 million, increased accounts payable and participations payable of $12.2 million and our net loss plus noncash adjustments thereto of $3.1 million, partially offset by increased inventory, advances, deferred advertising costs, and other current assets of $10.2 million, $6.3 million, $1.0 million, and $0.7 million, respectively. Our net cash provided by operating activities during the nine months ended September 30, 2011 was primarily attributable to decreased accounts receivable of $17.2 million, noncash adjustments of $1.7 million, and increased deferred revenue and other current liabilities of $0.7 million, partially offset by our net loss of $7.1 million, decreased accounts payable and participations payable of $4.8 million, decreased accrued liabilities of $2.5 million, and increased other current assets, inventory, and deferred advertising costs of $1.8 million, $1.7 million, and $1.3 million, respectively.

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Investing activities. Our investing activities used net cash of $16.6 million and provided net cash of $3.3 million during the nine months ended September 30, 2012 and 2011, respectively. The net cash used in investing activities during the nine months ended September 30, 2012 was used primarily for the $13.4 million cash portion of the purchase price for Gaiam Vivendi Entertainment, to acquire property and equipment to maintain normal operations for $2.1 million and media content for $1.0 million, and our travel subsidiary s purchase of the noncontrolling interest of one of its businesses for $0.2 million. The net cash provided by investing activities during the nine months ended September 30, 2011 was primarily attributable to cash acquired from our solar subsidiary s acquisition of Alteris of $3.4 million, collection on a note receivable of $2.7 million, and release of restricted cash of $0.7 million, partially offset by acquired property and equipment to maintain normal operations of $1.8 million, building improvements in preparation for leasing of $0.4 million, and media content of $1.3 million.

Financing activities. Our financing activities provided net cash of $1.6 million and used net cash of $5.1 million during the nine months ended September 30, 2012 and 2011, respectively. The net cash provided by financing activities during the nine months ended September 30, 2012 was primarily generated by net borrowings on a revolving line of credit of $20.9 million, the funds from which were mainly used towards the acquisition of Gaiam Vivendi Entertainment and its related expenses, partially offset by the repayment of a promissory note for $18.7 million in connection with the acquisition of Gaiam Vivendi Entertainment and our travel subsidiary s dividend payment to the noncontrolling interest of $0.6 million. Our net cash used in financing activities during the nine months ended September 30, 2011 was primarily the result of repayments of Alteris line of credit and debt borrowings of $2.2 million, repurchase of 518,762 of our Class A common shares for a total cost of $1.9 million, and Real Goods Solar s repurchase of 379,400 of its Class A common shares for a total cost of $1.1 million, partially offset by cash provided by stock option exercise issuances and their related tax benefits of $0.1 million.

On January 11, 2011, we renewed a shelf registration statement on Form S-3 with the Securities and Exchange Commission for the unissued portion of the 5,000,000 shares of our Class A common stock that we originally registered on November 8, 2007. During the nine months ended September 30, 2012, no shares were issued under this shelf registration.

We believe our available cash, new larger revolving line of credit, cash expected to be generated from operations, and cash generated by the sale of our stock should be sufficient to fund our operations on both a short-term and long-term basis. However, our projected cash needs may change as a result of acquisitions, product development, unforeseen operational difficulties or other factors.

In the normal course of our business, we investigate, evaluate and discuss acquisition, joint venture, minority investment, strategic relationship and other business combination opportunities in the LOHAS market. For any future investment, acquisition or joint venture opportunities, we may consider using then-available liquidity, issuing equity securities or incurring additional indebtedness.

Contractual Obligations

We have commitments pursuant to operating lease and media distribution agreements. The following table shows our commitments to make future payments or advances under these agreements as of September 30, 2012:

(in thousands)	Total	< 1 year	1-3 years	3-5 years	> 5 years
Operating lease payments	$ 3,826	$ 1,975	$ 1,797	$ 54	$
Media distribution advances	7,741	5,491	2,250		
Total contractual obligations	$ 11,567	$ 7,466	$ 4,047	$ 54	$

Risk Factors

We wish to caution you that there are risks and uncertainties that could cause our actual results to be materially different from those indicated by forward looking statements that we make from time to time in filings with the Securities and Exchange Commission, news releases, reports, proxy statements, registration statements and other written communications as well as oral forward looking statements made from time to time by our representatives. These risks and uncertainties include those risks listed in our Annual Report on Form 10-K for the year ended December 31, 2011. Historical results are not necessarily an indication of the future results. Except for the historical information contained herein, the matters discussed in this analysis are forward-looking statements that involve risk and uncertainties, including, but not limited to, general economic and business conditions, competition, pricing, brand reputation, consumer trends, and other factors which are often beyond our control. We do not undertake any obligation to update forward-looking statements except as required by law.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which include changes in U.S. interest rates and foreign exchange rates. We do not engage in financial transactions for trading or speculative purposes, but do have on occasion forward contracts for or investments in foreign currency, the gains and losses from which have been immaterial. In 2010, we acquired controlling financial interest in and, therefore, consolidated Gaiam PTY, an Australian based joint venture. Since Gaiam PTY s functional currency is the Australian dollar, this subsidiary exposes us to risk associated with foreign currency exchange rate fluctuations. However, we have determined that no material market risk exposure to our consolidated financial position, results from operations or cash flows existed as of September 30, 2012.

We have a revolving line of credit with outstanding borrowings and various letters of credit. Accordingly, any unfavorable change in interest rates could have a material impact on our results from operations or cash flows. As of September 30, 2012, if either of our Credit Agreement s Eurodollar, LIBOR, PNC s stated commercial, or Federal Funds Open Rates were to increase by one percentage point, our annual interest expense would increase by approximately $0.2 million, assuming constant debt levels.

We purchase a significant amount of inventory from vendors outside of the U.S. in transactions that are primarily U.S. dollar denominated transactions. A decline in the relative value of the U.S. dollar to other foreign currencies has and may continue to lead to increased purchasing costs.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our chief executive officer and chief financial officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act. Based upon their evaluation as of September 30, 2012, they have concluded that those disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings that we consider to be in the normal course of business. We do not believe that any of these proceedings will have a material adverse effect on our business.

Item 1A. Risk Factors

No material changes.

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Item 6. Exhibits

a) Exhibits.

Exhibit No.	Description
10.1*	Revolving Credit and Security Agreement, dated as of July 31, 2012, among Gaiam Americas, Inc., SPRI Products, Inc., GT Direct, Inc., VE Newco, LLC and PNC Bank, N.A.
31.1*	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2*	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1**	Certification of the 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 the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS***	XBRL Instance Document.
101.SCH***	XBRL Taxonomy Extension Schema.
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF***	XBRL Taxonomy Extension Definition Linkbase.
101.LAB***	XBRL Taxonomy Extension Label Linkbase.
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase.

* Filed herewith
** Furnished herewith
*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

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SIGNATURES

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

		Gaiam, Inc. (Registrant)
November 9, 2012 Date	By:	/s/ Lynn Powers Lynn Powers Chief Executive Officer (principal executive officer)
November 9, 2012 Date	By:	/s/ Stephen J. Thomas Stephen J. Thomas Chief Financial Officer (principal financial and accounting officer)

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EXHIBIT INDEX

Exhibit No.	Description
10.1*	Revolving Credit and Security Agreement, dated as of July 31, 2012, among Gaiam Americas, Inc., SPRI Products, Inc., GT Direct, Inc., VE Newco, LLC and PNC Bank, N.A.
31.1*	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2*	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1**	Certification of the 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 the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS***	XBRL Instance Document.
101.SCH***	XBRL Taxonomy Extension Schema.
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF***	XBRL Taxonomy Extension Definition Linkbase.
101.LAB***	XBRL Taxonomy Extension Label Linkbase.
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase.

* Filed herewith

** Furnished herewith

*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.