# 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 EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2019**

**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**

Gaia

# GAIA, INC.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **COLORADO** | **84-1113527** |
| **(State or other jurisdiction of incorporation or organization)** | **(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)**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Class A Common Stock** | **GAIA** | **NASDAQ Global Market** |

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). YES ☒ NO ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☒ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 November 1, 2019 |
|---|---|
| **Class A Common Stock ($.0001 par value)** | **12,984,971** |
| **Class B Common Stock ($.0001 par value)** | **5,400,000** |

**GAIA, INC.**

**FORM 10-Q**

**INDEX**

## 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 consolidated 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 September 30, 2019, the interim results of operations for the three and nine months ended September 30, 2019 and 2018, and cash flows for the nine months ended September 30, 2019 and 2018. Operating results for the three and nine month periods ended September 30, 2019 are not necessarily indicative of the results that may be expected for a full year or any future interim period. These interim statements have not been audited. The balance sheet as of December 31, 2018 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 consolidated financial statements, including the notes thereto, for the year ended December 31, 2018.

**GAIA, INC.**

**Condensed Consolidated Balance Sheets**

| (in thousands, except share and per share data) | | September 30, 2019 (unaudited) | | December 31, 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash | $ | 11,647 | $ | 29,964 |
| Accounts receivable | | 2,075 | | 1,334 |
| Prepaid expenses and other current assets | | 3,362 | | 3,192 |
| Total current assets | | 17,084 | | 34,490 |
| Building and land, net | | 22,836 | | 21,688 |
| Media library, software and equipment, net | | 35,588 | | 27,623 |
| Goodwill | | 17,289 | | 10,609 |
| Investments and other assets | | 13,680 | | 12,741 |
| Total assets | $ | 106,477 | $ | 107,151 |
| **LIABILITIES AND EQUITY** | | | | |
| Current liabilities: | | | | |
| Accounts payable, accrued and other liabilities | $ | 10,127 | $ | 7,993 |
| Deferred revenue | | 6,521 | | 5,029 |
| Total current liabilities | | 16,648 | | 13,022 |
| Long-term debt | | 18,399 | | 12,500 |
| Deferred taxes | | 206 | | 164 |
| Total liabilities | | 35,253 | | 25,686 |
| Equity: | | | | |
| Gaia, Inc. shareholders' equity: | | | | |
| Class A common stock, $.0001 par value, 150,000,000 shares authorized, 12,984,971 and 12,500,139 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively | | 1 | | 1 |
| Class B common stock, $.0001 par value, 50,000,000 shares authorized, 5,400,000 shares issued and outstanding at September 30, 2019 and December 31, 2018 | | 1 | | 1 |
| Additional paid-in capital | | 144,763 | | 139,666 |
| Accumulated deficit | | (73,541 ) | | (58,203 ) |
| Total equity | | 71,224 | | 81,465 |
| Total liabilities and equity | $ | 106,477 | $ | 107,151 |

See accompanying notes to the interim condensed consolidated financial statements.

**GAIA, INC.**

**Condensed Consolidated Statements of Operations**

| (in thousands, except per share data) | For the Three Months Ended September 30, 2019 | 2018 | For the Nine Months Ended September 30, 2019 | 2018 |
|---|---|---|---|---|
| | (unaudited) | | (unaudited) | |
| Revenues, net | $ 13,660 | $ 10,942 | $ 39,291 | $ 30,080 |
| Cost of revenues | 1,801 | 1,386 | 5,186 | 3,857 |
| **Gross profit** | 11,859 | 9,556 | 34,105 | 26,223 |
| Expenses: | | | | |
| Selling and operating | 14,319 | 18,618 | 44,214 | 47,096 |
| Corporate, general and administration | 1,440 | 1,454 | 4,526 | 4,205 |
| Total operating expenses | 15,759 | 20,072 | 48,740 | 51,301 |
| Loss from operations | (3,900 ) | (10,516 ) | (14,635 ) | (25,078 ) |
| Interest and other income (expense), net | (241 ) | 120 | (400 ) | 297 |
| Loss before income taxes | (4,141 ) | (10,396 ) | (15,035 ) | (24,781 ) |
| Income tax expense (benefit) | 3 | — | 45 | (1,826 ) |
| **Loss from continuing operations** | (4,144 ) | (10,396 ) | (15,080 ) | (22,955 ) |
| Income (loss) from discontinued operations | — | 67 | (258 ) | 242 |
| **Net loss** | $ (4,144 ) | $ (10,329 ) | $ (15,338 ) | $ (22,713 ) |
| Income (loss) per share-basic and diluted: | | | | |
| Continuing operations | $ (0.23 ) | $ (0.58 ) | $ (0.83 ) | $ (1.34 ) |
| Discontinued operations | — | — | (0.01 ) | 0.01 |
| Basic and diluted net loss per share | $ (0.23 ) | $ (0.58 ) | $ (0.84 ) | $ (1.33 ) |
| Weighted-average shares outstanding: | | | | |
| Basic and diluted | 18,375 | 17,890 | 18,070 | 17,048 |

See accompanying notes to the interim condensed consolidated financial statements.

**GAIA, INC.**

**Condensed Consolidated Statements of Changes in Equity**

(unaudited)

| (in thousands, except shares) | Total Equity | Gaia, Inc. Shareholders Accumulated Deficit | Common Stock Amount | Additional Paid-in Capital | Common Stock Shares |
|---|---|---|---|---|---|
| Balance at January 1, 2018 | $ 76,152 | $ (24,410) | $ 2 | $ 100,560 | 15,169,961 |
| Offering of Class A common stock | 37,128 | — | — | 37,128 | 2,683,333 |
| Issuance of Gaia, Inc. common stock for stock option exercises and share-based compensation, net of tax | 493 | — | — | 493 | 30,252 |
| Net loss | (6,035) | (6,035) | — | — | — |
| Balance at March 31, 2018 | $ 107,738 | $ (30,445) | $ 2 | $ 138,181 | 17,883,546 |
| Issuance of Gaia, Inc. common stock for stock option exercises and share-based compensation, net of tax | 539 | — | — | 539 | 16,593 |
| Net loss | (6,349) | (6,349) | — | — | — |
| Balance at June 30, 2018 | $ 101,928 | $ (36,794) | $ 2 | $ 138,720 | 17,900,139 |
| Share-based compensation, net of tax | 434 | — | — | 434 | — |
| Net loss | (10,329) | (10,329) | — | — | — |
| Balance at September 30, 2018 | $ 92,033 | $ (47,123) | $ 2 | $ 139,154 | 17,900,139 |
| | | | | | |
| Balance at January 1, 2019 | $ 81,465 | $ (58,203) | $ 2 | $ 139,666 | 17,900,139 |
| Share-based compensation, net of tax | 594 | — | — | 594 | — |
| Net loss | (6,726) | (6,726) | — | — | — |
| Balance at March 31, 2019 | $ 75,333 | $ (64,929) | $ 2 | $ 140,260 | 17,900,139 |
| Share-based compensation, net of tax | 515 | — | — | 515 | — |
| Issuance of Gaia, Inc. common stock for asset acquisition and business combination | 3,500 | — | — | 3,500 | 484,832 |
| Net loss | (4,468) | (4,468) | — | — | — |
| Balance at June 30, 2019 | $ 74,880 | $ (69,397) | $ 2 | $ 144,275 | 18,384,971 |
| Share-based compensation, net of tax | 488 | — | — | 488 | — |
| Net loss | (4,144) | (4,144) | — | — | — |
| Balance at September 30, 2019 | $ 71,224 | $ (73,541) | $ 2 | $ 144,763 | 18,384,971 |

See accompanying notes to the interim condensed consolidated financial statements.

**GAIA, INC.**

**Condensed Consolidated Statements of Cash Flows**

| (in thousands) | For the Nine Months Ended September 30, 2019 | 2018 |
|---|---|---|
| | (unaudited) | |
| **Operating activities:** | | |
| Net loss | $ (15,338) | $ (22,713) |
| (Income) loss from discontinued operations | 258 | (242) |
| Loss from continuing operations | (15,080) | (22,955) |
| Adjustments to reconcile net loss from continuing operations to net cash used in operating activities: | | |
| Depreciation and amortization | 6,849 | 5,045 |
| Share-based compensation expense | 1,597 | 1,138 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (741) | (428) |
| Prepaid expenses and other assets | (685) | (787) |
| Accounts payable and accrued liabilities | 1,572 | 3,392 |
| Deferred revenue | 492 | 1,211 |
| Net cash used in operating activities - continuing operations | (5,996) | (13,384) |
| Net cash provided by operating activities - discontinued operations | 76 | 242 |
| Net cash used in operating activities | (5,920) | (13,142) |
| **Investing activities:** | | |
| Acquisitions, net of cash acquired, and purchases of intangible assets | (1,575) | — |
| Additions to media library, property and equipment | (14,914) | (13,753) |
| Net cash used in investing activities | (16,489) | (13,753) |
| **Financing activities:** | | |
| Repayments on line of credit | (12,500) | (12,500) |
| Proceeds from issuance of term mortgage, net of issuance costs | 16,592 | — |
| Proceeds from the issuance of common stock | — | 37,430 |
| Net cash provided by financing activities | 4,092 | 24,930 |
| Net decrease in cash | (18,317) | (1,965) |
| Cash at beginning of period | 29,964 | 32,778 |
| Cash at end of period | $ 11,647 | $ 30,813 |

See accompanying notes to the interim condensed consolidated financial statements.

**Notes to interim condensed consolidated financial statements**

*References in this report to "we", "us", "our" or "Gaia" refer to Gaia, Inc. and its consolidated subsidiaries, unless we indicate otherwise.*

**1. Organization, Nature of Operations, and Principles of Consolidation**

Gaia, Inc. was incorporated under the laws of the State of Colorado in 1988 and operates a global digital video subscription service and on-line community that caters to a unique and underserved subscriber base. Our digital content library consists of approximately 8,000 English language titles as well as a growing selection of titles available in Spanish, German or French. Our subscribers have unlimited access to a vast library of inspiring films, cutting edge documentaries, interviews, yoga classes, transformation related content, and more – 90% of which is exclusively available to our subscribers for digital streaming on most internet-connected devices anytime, anywhere, commercial-free.

Our mission is to create a transformational network that empowers a global conscious community. Content on our network is currently curated into four channels: Yoga, Transformation, Alternative Healing, and Seeking Truth, and delivered directly to our subscribers through our streaming platform. We expand programming for these channels primarily by producing content in our in-house production studios with a staff of media professionals. Content produced for and owned by us currently represents about 80% of total viewership. In addition, we complement our produced and owned content through long term, predominately exclusive, licensing agreements.

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") and they include our accounts and those of our subsidiaries. Intercompany transactions and balances have been eliminated. The unaudited condensed consolidated financial position, results of operations and cash flows for the interim periods disclosed in this report are not necessarily indicative of future financial results.

There have been no material changes in our significant accounting policies, other than the adoption of accounting pronouncements below, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2018.

*Use of Estimates and Reclassifications*

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the accompanying financial statements and disclosures. Although we base these estimates on our best knowledge of current events and actions that we may undertake in the future, actual results may be different from the estimates. We have made certain reclassifications to prior period amounts to conform to the current period presentations.

*Recently Adopted Accounting Policies*

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases must be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The new standard did not have a material impact on our reported financial position or results of operations in the three and nine months ended September 30, 2019.

*Recently Issued Accounting Policies*

In March 2019, the FASB issued ASU 2019-02,*Improvements to Accounting for Costs of Films and License Agreements for Program Materials*, in order to align the accounting for production costs of an episodic television series with the accounting for production costs of films by removing the content distinction for capitalization. ASU 2019-02 also requires reassessing estimates of the use of a film in a film group and accounting for any changes prospectively. In addition, ASU 2019-02 requires testing films and program material license agreements for impairment at a film group level when the films or license agreements are predominantly monetized with other films and license agreements. ASU 2019-02 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. We are evaluating the impact on our reported financial position and results of operations, but do not believe it will have a material impact on either.

*Discontinued Operations*

In the first quarter of 2019, we reclassified our legacy DVD subscription club as a discontinued operation and have presented the related operations in discontinued operations on the accompanying statement of operations. There were no assets or liabilities associated with this club in the condensed consolidated balance sheets.

**2. Revenue Recognition**

Revenues consist primarily of subscription fees paid by our customers. We present revenues net of taxes collected from customers. Subscribers are billed in advance and revenues are recognized ratably over the subscription term. Deferred revenues consist of subscription fees collected from customers that have not been earned and are recognized ratably over the remaining term of the subscription. We recognize revenue on a net basis for relationships where our partners have the primary relationship, including billing and service delivery, with the subscriber. Payments made to partners to assist in promoting our service on their platforms are expensed as marketing expenses in the period incurred. We do not allow access to our service to be provided as part of a bundle by any of our partners.

**3. Equity and Share-Based Compensation**

In June 2019, we issued 404,891 shares of Class A common stock as part of the consideration for an acquisition of a complementary streaming platform focused on Alternative Healing. If the acquired platform maintains profitability and achieves a specific subscriber growth threshold as of June 30, 2020, we may issue up to 139,665 additional shares of Class A common stock as additional consideration. We also issued 79,941 shares of Class A common stock as part of the consideration to acquire over 450 titles of original content that has been integrated into our Alternative Healing channel.

During the first nine months of 2019 and 2018, we recognized approximately $1,597,000 and $1,138,000, respectively, of share-based compensation expense. Total share-based compensation expense is reported in selling and operating expenses and corporate, general and administration expenses on our condensed consolidated statements of operations. During the first nine months of 2018, 45,800 options were exercised with net proceeds of $258,000. No options were exercised during the first nine months of 2019.

**4. Goodwill and Other Intangible Assets**

The following table sets forth changes in goodwill for the period from December 31, 2018 through September 30, 2019:

| (in thousands) | | |
|---|---|---|
| Balance at December 31, 2018 | $ | 10,609 |
| Acquisition | | 6,680 |
| Balance at September 30, 2019 | $ | 17,289 |

The following table represents our other intangible assets by major asset class as of the dates indicated, which are included in Investments and Other Assets on the accompanying condensed consolidated balance sheet:

| (in thousands) | | September 30, 2019 | | December 31, 2018 |
|---|---|---|---|---|
| **Amortizable Intangible Assets** | | | | |
| Customer related | | | | |
| Gross carrying amount | $ | 550 | $ | — |
| Accumulated amortization | | (183) | | — |
| | $ | 367 | $ | — |
| | | | | |
| **Unamortized Intangible Assets** | | | | |
| Domain names | $ | 571 | $ | 571 |

The customer related intangible assets are being amortized on a straight-line basis over 12 months. Amortization expense was $138,000 and $183,000 for the three and nine months ended September 30, 2019, respectively. Amortization expense for the remainder of 2019 is expected to be $138,000.

**5. Debt**

On April 26, 2019, we replaced the line of credit of our wholly owned subsidiary Boulder Road LLC with a $17.0 million mortgage with BDS III Mortgage Capital B LLC, as lender. The mortgage bears interest at a fixed spread over LIBOR, matures on May 1, 2022, with a two year extension option, is secured by our corporate campus and is guaranteed by Gaia with no recourse against other assets. The current interest rate is 5.78%. Boulder Road's financial statements are included within our consolidated financial statements; however, Boulder Road's assets and credit are only available to pay its own debts and obligations and are not available to satisfy the debts or obligations of any other entity.

In June 2019, one of our wholly owned subsidiaries issued a $1.45 million secured convertible promissory note as part of the consideration for the platform acquisition discussed in Note 3. This note is secured by the assets acquired by the subsidiary, bears interest at 2% per annum and is due and payable on January 2, 2021. The promissory note is convertible into 208,589 shares of Class A common stock at the election of the holder at any time prior to maturity. No payments are due prior to maturity.

Also in June 2019, one of our wholly owned subsidiaries issued a $300,000 secured convertible promissory note as part of the consideration for the acquisition of a library of original content discussed in Note 3. This note is secured by the library acquired by the subsidiary, bears interest at 2% per annum and is due and payable on January 2, 2021. The promissory note is convertible into 41,145 shares of Class A common stock at the election of the holder at any time prior to maturity. No payments are due prior to maturity.

**6. Net Loss per Share**

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all shares of common stock underlying stock options, restricted stock units and convertible notes payable, to the extent dilutive. Basic and diluted net loss per share were the same for the three and nine months ended September 30, 2019 and 2018, respectively, as the inclusion of all underlying common shares would have been anti-dilutive.

**7. Income Taxes**

Our provision for income taxes is comprised of the following:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Current: | | | | |
| Federal | $ — | $ — | $ — | $ — |
| State | — | — | — | — |
| Total current | — | — | — | — |
| Deferred: | | | | |
| Federal | 3 | — | 45 | (1,818) |
| State | — | — | — | (8) |
| Total deferred | 3 | — | 45 | (1,826) |
| Total income tax expense (benefit) | $ 3 | $ — | $ 45 | $ (1,826) |

The income tax benefit recorded during 2018 is a result of our historical alternative minimum tax payments becoming fully refundable in 2018. The income tax expense recorded in 2019 is a result of the amortization of goodwill over 15 years for tax purposes. Periodically, we perform assessments of the realization of our net deferred tax assets considering all available evidence, both positive and negative. Based on our historical operating losses, combined with our plans to continue to invest in our revenue growth and generate losses through 2019, we have a full valuation allowance on our deferred tax assets. As of September 30, 2019, our net operating loss carryforwards on a gross basis were $90.8 million and $25.6 million for federal and state, respectively.

**8. Contingencies**

From time to time, we are involved in legal proceedings that we consider to be in the normal course of business. We record accruals for losses related to those matters against us that we consider to be probable and that can be reasonably estimated. Based on available information, in the opinion of management, settlements, arbitration awards and final judgments, if any, that are considered probable of being rendered against us in litigation or arbitration in existence at September 30, 2019 and that can be reasonably estimated are either reserved against or would not have a material adverse effect on our financial condition, results of operations or cash flows.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. When used in this discussion, we intend the words "anticipate," "believe," "plan," "estimate," "expect," "strive," "future," "intend", "will" and similar expressions as they relate to us 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" and elsewhere in this Form 10-Q and under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018. Risks and uncertainties that could cause actual results to differ include, without limitation, general economic conditions, ongoing losses, competition, loss of key personnel, pricing, brand reputation, acquisitions, new initiatives we undertake, security and information systems, legal liability for website content, failure of third parties to provide adequate service, future internet-related taxes, our founder's control of us, litigation, fluctuations in quarterly operating results, consumer trends, the effect of government regulation and programs 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 views only as of the date of this report. We undertake no obligation to update any forward-looking information.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this document. This section is designed to provide information that will assist in understanding our condensed consolidated financial statements, changes in certain items in those statements from period to period, the primary factors that caused those changes and how certain accounting principles, policies and estimates affect the condensed consolidated financial statements.

### Overview and Outlook

We operate a global digital video subscription service with a library of approximately 8,000 English-language titles as well as a growing selection of titles available in Spanish, German and French, which caters to a unique, underserved subscriber base. Our digital content is available to our subscribers on most internet-connected devices anytime, anywhere commercial-free. Through our online Gaia subscription service, our subscribers have unlimited access to a library of inspiring films, cutting-edge documentaries, interviews, yoga classes, transformation related content, and more; all available to our subscribers for digital streaming on most internet-connected devices. A subscription also allows our subscribers to download files from our library and view them later when they are not actively connected to the internet.

Gaia's position in the streaming video landscape is firmly supported by its wide variety of exclusive and unique content, which provides a complementary offering to other entertainment-based streaming video services. Most of our original content is developed and produced in-house in our production studios near Boulder, Colorado. Over 90% of our content is available for streaming exclusively on Gaia. By offering exclusive and unique content through our streaming service, we believe we will be able to significantly expand our subscriber base.

Our available content is currently focused on yoga, transformation, alternative healing, seeking truth, and conscious films. This content is specifically targeted to a unique customer base that is interested in alternatives and supplements to the content provided by mainstream media. We have grown these content options both organically through our own productions and through strategic acquisitions. In addition, through investments in our streaming video technology and our user interface, we have expanded the many ways our subscribers can access our unique library of media titles.

Our core strategy is to grow our subscription business domestically and internationally by expanding our unique and exclusive content library, enhancing our user interface, extending our streaming service to new internet-connected devices as they are developed and creating a conscious community built on our content.

We reported net losses of $15.3 million and $22.7 million for the nine months ended September 30, 2019 and 2018, respectively.

We are a Colorado corporation. Our principal and executive office is located at 833 West South Boulder Road, Louisville, CO 80027-2452. Our telephone number at that address is (303) 222-3600. We maintain a website at www.gaia.com. The website address has been included only as a textual reference. Our website and the information contained on it, or connected to it, are not incorporated by reference into this Form 10-Q. We are a "smaller reporting company" as defined in Rule 12b-2 of the Securities Exchange Act of 1934, and have elected to take advantage of certain of the scaled disclosure available to smaller reporting companies.

**Results of Operations**

The table below summarizes certain detail of our financial results for the periods indicated:

| (in thousands, except per share data) | For the Three Months Ended September 30, 2019 | For the Three Months Ended September 30, 2018 | For the Nine Months Ended September 30, 2019 | For the Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Revenues, net | $ 13,660 | $ 10,942 | $ 39,291 | $ 30,080 |
| Cost of revenues | 1,801 | 1,386 | 5,186 | 3,857 |
| Gross profit | 86.8% | 87.3% | 86.8% | 87.2% |
| Selling and operating expenses | 14,319 | 18,618 | 44,214 | 47,096 |
| Corporate, general and administration expenses | 1,440 | 1,454 | 4,526 | 4,205 |
| Loss from operations | (3,900) | (10,516) | (14,635) | (25,078) |
| Interest and other income (expense), net | (241) | 120 | (400) | 297 |
| Loss before income taxes | (4,141) | (10,396) | (15,035) | (24,781) |
| Income tax expense (benefit) | 3 | — | 45 | (1,826) |
| Loss from continuing operations | (4,144) | (10,396) | (15,080) | (22,955) |
| Income (loss) from discontinued operations | — | 67 | (258) | 242 |
| Net loss | $ (4,144) | $ (10,329) | $ (15,338) | $ (22,713) |

The following table sets forth certain financial data as a percentage of revenue for the periods indicated:

| | For the Three Months Ended September 30, 2019 | For the Three Months Ended September 30, 2018 | For the Nine Months Ended September 30, 2019 | For the Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Revenues, net | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of revenues | 13.2% | 12.7% | 13.2% | 12.8% |
| Gross profit | 86.8% | 87.3% | 86.8% | 87.2% |
| Expenses: | | | | |
| Selling and operating | 104.8% | 170.2% | 112.5% | 156.6% |
| Corporate, general and administration | 10.5% | 13.3% | 11.5% | 14.0% |
| Total expenses | 115.4% | 183.4% | 124.0% | 170.5% |
| Loss from operations | (28.6)% | (96.1)% | (37.2)% | (83.4)% |
| Interest and other income (expense), net | (1.8)% | 1.1% | (1.0)% | 1.0% |
| Loss before income taxes | (30.3)% | (95.0)% | (38.3)% | (82.4)% |
| Income tax expense (benefit) | 0.0% | —% | 0.1% | (6.1)% |
| Loss from continuing operations | (30.3)% | (95.0)% | (38.4)% | (76.3)% |
| Income (loss) from discontinued operations | 0.0% | 0.6% | (0.7)% | 0.8% |
| Net loss | (30.3)% | (94.4)% | (39.0)% | (75.5)% |

***Three months ended September 30, 2019 compared to three months ended September 30, 2018***

*Revenues, net*. Revenues increased $2.8 million, or 25.7%, to $13.7 million during the third quarter of 2019, compared to $10.9 million during the third quarter of 2018. The increase was primarily driven by the 16% increase in paying subscribers over the year-earlier period, as well as increases in our average revenue per subscriber.

*Cost of revenues*. Cost of revenues increased $0.4 million, or 28.6%, to $1.8 million during the third quarter of 2019, from $1.4 million during the third quarter of 2018 and, as a percentage of net revenues, increased to 13.2% during the third quarter of 2019 from 12.7% during the third quarter of 2018 primarily due to amortization from our increased content investment over the past twelve months.

*Selling and operating expenses*. Selling and operating expenses decreased $4.3 million, or 23.1%, to $14.3 million during the third quarter of 2019 from $18.6 million during the third quarter of 2018 and, as a percentage of net revenues, decreased to 104.8% during the third quarter of 2019 from 170.2% during the third quarter of 2018 primarily due to our continued discipline in reducing our customer acquisition spending both as a percentage of revenue and on an absolute basis.

*Corporate, general and administration expenses*. Corporate, general and administration decreased $14 thousand, or 1%, to $1.4 million during the third quarter of 2019 compared to the same period of 2018 and, as a percentage of net revenues, decreased to 10.5% during the third quarter of 2019 from 13.3% during the third quarter of 2018, due to increased revenues in 2019 and disciplined expense management.

*Net loss*. As a result of the above factors net loss decreased to $4.1 million, or $0.23 per share, during the third quarter of 2019 compared to a net loss of $10.3 million, or $0.58 per share, during the third quarter of 2018.

***Nine months ended September 30, 2019 compared to nine months ended September 30, 2018***

*Revenues, net*. Revenues increased $9.2 million, or 30.6%, to $39.3 million during the first nine months of 2019, compared to $30.1 million during the first nine months of 2018. The increase was primarily driven by the growth in our subscriber base between the two periods.

*Cost of revenues*. Cost of revenues increased $1.3 million, or 33.3%, to $5.2 million during the first nine months of 2019, from $3.9 million during the first nine months of 2018 and, as a percentage of net revenues, increased to 13.2% during the first nine months of 2019 from 12.8% during the first nine months of 2018 primarily due to amortization from our increased content spending over the past twelve months.

*Selling and operating expenses*. Selling and operating expenses decreased $2.9 million, or 6.2%, to $44.2 million during the first nine months of 2019 from $47.1 million during the first nine months of 2018, and, as a percentage of net revenues, decreased to 112.5% during the first nine months of 2019 from 156.6% during the first nine months of 2018 primarily due to our continued discipline in reducing customer acquisition spending both as a percentage of revenue and on an absolute basis.

*Corporate, general and administration expenses*. Corporate, general and administration expenses increased $0.3 million or 7.1%, to $4.5 million during the first nine months of 2019 from $4.2 million during the first nine months of 2018 and, as a percentage of net revenues, decreased to 11.5% during the first nine months of 2019 from 14.0% during the first nine months of 2018, due to increased revenues in 2019 and increased professional services fees related to the platform acquisition completed in June 2019.

*Net loss*. As a result of the above factors, net loss was $15.3 million, or $0.84 per share, during the first nine months of 2019 compared to a net loss of $22.7 million, or $1.33 per share, during the first nine months of 2018.

**Seasonality**

Our subscriber growth exhibits a seasonal pattern that reflects variations when consumers typically spend more time indoors and, as a result, tend to increase their viewing, similar to those of traditional TV and cable networks. Our subscriber growth is generally greatest during October through February and slowest in May through August. As we continue to expand internationally, we expect regional seasonality trends to demonstrate more predictable seasonal patterns as our service offering in each market becomes more established and we have a longer history to assess such patterns.

**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 and marketing of our digital platforms, acquisitions of new businesses and other investments, 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 offerings, our ability to expand our customer base, the cost of ongoing upgrades to our offerings, our expenditures for marketing, and other factors. Additionally, we will continue to pursue opportunities to expand our media libraries, evaluate possible investments in businesses and technologies, and increase our marketing programs as needed. At September 30, 2019, our cash balance was $11.6 million. We estimate that our capital expenditures, including investments in our media library, will total approximately $3.0 million to $4.0 million for the remainder of 2019, which will be funded through our available cash balance and operating cash flows that we expect to generate in the fourth quarter of 2019.

On April 26, 2019, we replaced the line of credit of our wholly owned subsidiary Boulder Road LLC with a $17.0 million mortgage with BDS III Mortgage Capital B LLC, as lender. The mortgage bears interest at a fixed spread over LIBOR, matures on May 1, 2022, with a two year extension option, is secured by our corporate campus and is guaranteed by Gaia with no recourse against other assets. Boulder Road's financial statements are included within our consolidated financial statements; however, Boulder Road's assets and credit are only available to pay its own debts and obligations and are not available to satisfy the debts or obligations of any other entity.

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 our market. For any future investment, acquisition or joint venture opportunities, we may consider using then-available liquidity, issuing equity securities or incurring indebtedness.

While there can be no assurances, we believe our cash on hand, cash expected to be generated from operations, and potential borrowing capabilities should be sufficient to fund our operations on both a short-term and long-term basis. In addition, we own our corporate headquarters and could enter into a sale/leaseback transaction to provide additional funds. However, our projected cash needs may change as a result of acquisitions, product development, unforeseen operational difficulties or other factors.

***Cash Flows***

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

| | For the Nine Months Ended September 30, | |
|---|---|---|
| **(in thousands)** | **2019** | **2018** |
| Net cash provided by (used in): | | |
| Operating activities - continuing operations | $ (5,996) | $ (13,384) |
| Operating activities - discontinued operations | 76 | 242 |
| Operating activities | (5,920) | (13,142) |
| Investing activities | (16,489) | (13,753) |
| Financing activities | 4,092 | 24,930 |
| Net decrease in cash | $ (18,317) | $ (1,965) |

*Operating activities.* Cash flows used in operations improved $7.2 million during the first nine months of 2019 compared to the same period in 2018. The improvement was primarily due to increased revenues and reductions in our spending on customer acquisition in 2019.

*Investing activities*. Cash flows used in investing activities increased $2.7 million during the first nine months of 2019 compared to the same period in 2018 primarily due to the platform acquisition completed in June 2019 and ongoing investments in our media library, product enhancements, and our corporate campus. We have completed most of our campus improvements and expect the ongoing investment in the campus to be nominal going into the fourth quarter of 2019 and into 2020.

*Financing activities.* Cash flows provided by financing activities decreased $20.8 million during the first nine months of 2019 compared to the same period in 2018 primarily due to the net proceeds of $37.1 million from the sale of Class A common stock in March 2018, partially offset by the replacement of our line of credit with a $17.0 million mortgage as discussed in Note 5 to the condensed consolidated financial statements in Item 1 of this Form 10-Q.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company as defined in Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of 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 Securities Exchange Act of 1934. Based upon its evaluation as of September 30, 2019, our management has concluded that those disclosure controls and procedures are effective.

### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2019, 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.**

None.

**Item 1A. Risk Factors.**

We are a smaller reporting company as defined in Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

| Exhibit No. | Description |
|---|---|
| 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

## 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.

Gaia, Inc.
(Registrant)

| | |
|---|---|
| November 5, 2019 | By:/s/ Jirka Rysavy |
| Date | Jirka Rysavy<br>Chief Executive Officer<br>(authorized officer) |
| November 5, 2019 | By:/s/ Paul Tarell |
| Date | Paul Tarell<br>Chief Financial Officer<br>(principal financial and accounting officer) |

**Exhibit 31.1**

# CERTIFICATION

I, Jirka Rysavy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gaia, 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15((f)) 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 the 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 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.

Date: November 5, 2019

/s/ Jirka Rysavy
Jirka Rysavy
Chief Executive Officer
(principal executive officer)

**Exhibit 31.2**

**CERTIFICATION**

I, Paul Tarell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gaia, 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15((f)) 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 the 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 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.

Date: November 5, 2019

/s/ Paul Tarell
Paul Tarell
Chief Financial Officer
(principal financial officer)

**Exhibit 32.1**

**CERTIFICATIONS 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 of Gaia, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2019, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Jirka Rysavy, 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 to the best of my knowledge:

(1) The Report fully complies with the requirements of Sections 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.

Date: November 5, 2019

/s/ Jirka Rysavy
Jirka Rysavy
Chief Executive Officer
(principal executive officer)

A signed original of the written statement required by Section 906 has been provided to Gaia will be retained by Gaia and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**CERTIFICATIONS 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 of Gaia, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2019, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Paul Tarell, 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 to the best of my knowledge:

(1) The Report fully complies with the requirements of Sections 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.

Date: November 5, 2019

/s/ Paul Tarell
Paul Tarell
Chief Financial Officer
(principal financial officer)

A signed original of the written statement required by Section 906 has been provided to Gaia and will be retained by Gaia and furnished to the Securities and Exchange Commission or its staff upon request.