

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

GENESISINTERMEDIA INC
Form 10-Q
August 14, 2001

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

001-15029
(Commission file number)

GENESISINTERMEDIA, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

95-4710370
(IRS Employer
Identification No.)

5805 SEPULVEDA BOULEVARD, VAN NUYS, CA 91411
(Address of principal executive offices)

(818) 902-4100
(Issuer's telephone number)

(Former name, former address and former fiscal year,
if changed since last report)

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity. As of August 13, 2001 - 23,279,621 shares of Common Stock

GENESISINTERMEDIA, INC.
INDEX

Page
Number

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheet as of June 30, 2001

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

and December 31, 2000	2-3
Condensed Consolidated Statements of Operations for the three months ended June 30, 2001 and 2000	4
Condensed Consolidated Statements of Operations for the six months ended June 30, 2001 and 2000	5
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2001 and 2000	6
Notes to Condensed Consolidated Financial Statements	7-11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12-19
Part II. OTHER INFORMATION	
Item 1. Legal Proceedings	19
Item 2. Change in Securities and Use of Proceeds	19
Item 3. Defaults Upon Senior Securities	19
Item 4. Submission of Matters to a Vote of Security Holders	19
Item 5. Other Information	19
Item 6. Exhibits and Reports on Form 8-K	20
SIGNATURES	20
Part III. EXHIBITS	

1

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GENESISINTERMEDIA, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 AS OF JUNE 30, 2001 AND DECEMBER, 2000

	JUNE 30 2001 (unaudited)	DECEMBER 31, 2000 (audited)
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,775,211	\$ 858,848
Marketable securities at market	-	1,926,746
Accounts receivable, net	5,254,209	3,846,453
Inventories	968,693	1,383,620
Revenue earning equipment	7,622,145	8,435,359
Prepaid advertising	628,132	2,461,928
Advances receivable	1,103,665	1,201,348
Deposits and other prepaid assets	4,577,852	2,809,428
	-----	-----
TOTAL CURRENT ASSETS	21,929,907	22,923,730

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

PROPERTY AND EQUIPMENT, NET	27,105,204	28,133,574
CUSTOMER LISTS	-	955,287
GOODWILL, NET	4,095,456	4,479,560
OTHER ASSETS	1,006,724	684,430
	-----	-----
TOTAL ASSETS	\$54,137,291	\$57,176,581
	=====	=====

2

GENESISINTERMEDIA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF JUNE 30, 2001 AND DECEMBER, 2000

	JUNE 30, 2001 (unaudited)	DECEMBER 31, 2000 (audited)
	-----	-----
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 121,119	\$ 745,977
Current portion of capital lease obligations	576,062	9,225,944
Line of credit	8,349,587	8,329,733
Accounts payable	6,631,053	729,163
Accrued payroll taxes	729,163	2,053,495
Accrued interest - related party	2,059,695	1,913,866
Other accrued liabilities	1,837,920	2,693,999
Due to stockholder	68,567	65,000
Income taxes payable	65,000	-
	-----	-----
TOTAL CURRENT LIABILITIES	20,438,166	25,887,833
NOTES PAYABLE, NET OF CURRENT PORTION	7,856,250	7,856,250
NOTE PAYABLE TO RELATED PARTY	34,661,445	30,382,266
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	480,383	518,177
	-----	-----
TOTAL LIABILITIES	63,436,244	64,644,526
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Convertible preferred stock, \$0.001 par value, 5,000,000 authorized 71,429 and 71,429 shares issued and outstanding (\$7.00 per share liquidation preference Dividends of \$102,083 in arrears)	71	7
Common stock, \$0.001 par value 75,000,000 shares authorized 22,311,881 and 20,971,560 shares issued and outstanding	22,312	20,977
Additional paid-in capital	50,581,373	35,752,544
Accumulated deficit	(57,500,226)	(41,827,177)
Treasury stock	(2,402,483)	(2,402,483)
Accumulated comprehensive income	-	988,133
	-----	-----
TOTAL STOCKHOLDERS' DEFICIT	(9,298,953)	(7,467,933)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 54,137,291	\$ 57,176,581
	=====	=====

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

See the accompanying notes

3

GENESISINTERMEDIA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	3 MONTHS ENDED JUNE 30, 2001 ----- (unaudited)	3 MONTHS ENDED JUNE 30, 2000 ----- (unaudited)
REVENUE	\$ 12,395,635	\$ 7,315,341
COST OF REVENUE	3,745,097	2,788,549
GROSS PROFIT	----- 8,650,538	----- 4,526,792
OPERATING EXPENSES		
Selling, general and administrative expenses	11,901,307	9,844,423
Depreciation and amortization	1,577,687	1,022,268
Loss from operations of DynaMedia	-	41,158
TOTAL OPERATING EXPENSES	----- 13,478,994	----- 10,907,849
LOSS FROM OPERATIONS	(4,828,456)	(6,381,057)
OTHER INCOME (EXPENSES)		
Gain on sale of assets	24,147	-
Interest expense	(1,473,166)	(959,128)
Financing costs	(1,452,709)	-
TOTAL OTHER INCOME (EXPENSES)	----- (2,901,728)	----- (959,128)
LOSS BEFORE PROVISION FOR INCOME TAXES	(7,730,184)	(7,340,185)
PROVISION (BENEFIT) FOR INCOME TAXES	-	-
NET LOSS	----- \$ (7,730,184)	----- \$ (7,340,185)
BASIC LOSS PER COMMON SHARE	=====	=====
	\$ (0.36)	\$ (0.43)
DILUTED LOSS PER COMMON SHARE	=====	=====
	\$ (0.36)	\$ (0.43)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	=====	=====
	21,690,805	17,077,278

See the accompanying notes

4

GENESISINTERMEDIA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

6 MONTHS ENDED	6 MONTHS ENDED
-------------------	-------------------

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

	JUNE 30, 2001	JUNE 30, 2000
	----- (unaudited)	----- (unaudited)
REVENUE	\$ 24,931,089	\$ 14,788,010
COST OF REVENUE	6,349,650	4,683,830
GROSS PROFIT	----- 18,581,439	----- 10,104,180
OPERATING EXPENSES		
Selling, general and administrative expenses	26,630,772	19,465,474
Depreciation and amortization	2,997,849	1,842,334
Income from operations of DynaMedia	-	(69,361)
TOTAL OPERATING EXPENSES	----- 29,628,621	----- 21,238,447
LOSS FROM OPERATIONS	(11,047,182)	(11,134,267)
OTHER INCOME (EXPENSES)		
Gain on sale of assets	202,092	-
Interest expense	(3,104,708)	(1,235,938)
Financing costs	(1,723,251)	(103,125)
TOTAL OTHER INCOME (EXPENSES)	----- (4,625,867)	----- (1,339,063)
LOSS BEFORE PROVISION FOR INCOME TAXES	(15,673,049)	(12,473,330)
PROVISION (BENEFIT) FOR INCOME TAXES	-	-
NET LOSS	----- \$ (15,673,049)	----- \$ (12,473,330)
BASIC LOSS PER COMMON SHARE	=====	=====
	\$ (0.73)	\$ (0.75)
DILUTED LOSS PER COMMON SHARE	=====	=====
	\$ (0.73)	\$ (0.75)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	=====	=====
	21,400,637	16,649,889

See the accompanying notes

5

GENESISINTERMEDIA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	6 MONTHS ENDED JUNE 30, 2001	6 MONTHS ENDED JUNE 30, 2000
	----- (unaudited)	----- (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (15,673,049)	\$ (12,473,330)
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	4,049,960	2,236,524
Gain on sale of assets	(177,945)	-
Stock/warrants issued for financing costs	1,623,251	103,125

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

(Increase) decrease in operating assets	(1,135,268)	(3,394,605)
Increase (decrease) in operating liabilities	(1,899,089)	(1,610,013)
	-----	-----
Net cash used in operating activities	(13,212,140)	(15,138,299)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(365,047)	(2,655,974)
Proceeds from sale of marketable securities	1,116,557	-
Cash acquired with purchase of Dynamedia and CRD	-	266,131
Other	(322,294)	(440,525)
	-----	-----
Net cash provided by (used in) investing activities	429,216	(2,830,368)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from related parties	(2,625,426)	-
Net proceeds from line of credit	(876,359)	(1,731,245)
Proceeds from notes payable - related party	9,322,978	18,334,596
Proceeds from sale of stock, net	-	3,798,035
Proceeds from convertible debentures	3,000,000	-
Proceeds from exercise of options and warrants	3,220,998	770,969
Repurchase of common stock	-	(2,296,813)
Payments on notes payable - related party	(5,043,799)	-
Payment on notes payable and capital leases	(285,025)	(1,088,697)
Disgorgement of short-swing profits generated by stockholder	6,985,920	-
	-----	-----
Net cash provided by financing activities	13,699,287	17,786,845
	-----	-----
Net increase (decrease) in cash and cash equivalents during period	916,363	(181,822)
	-----	-----
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	858,848	589,745
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,775,211	\$ 407,923
	=====	=====

See the accompanying notes

6

GENESISINTERMEDIA, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared by GenesisIntermedia, Inc. (the "Company" or "Genesis"), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The results of the six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year ending December 31, 2001. These financial statements should be read in conjunction with the Company's consolidated audited financial statements and related footnotes for the year ended December 31, 2000 included in the Company's annual report on Form 10-K.

NOTE 2 - EARNINGS PER SHARE

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

In 1997, the Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Basic earnings per share is computed using the weighted-average number of common shares outstanding during the period. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. The following potential common shares have been excluded from the computation of diluted net loss per share for all periods presented because the effect would have been anti-dilutive:

7

GENESISINTERMEDIA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - EARNINGS PER SHARE, CONTINUED

	For the six months Ended June 30,	
	2001	2000
	(unaudited)	(unaudited)
Options outstanding under the Company's stock option plan	3,823,030	1,326,351
Options issued as part of the acquisition of Vision Digital	150,000	150,000
Warrants issued in conjunction with common stock	750,000	750,000
Warrants issued in conjunction with Series A convertible preferred stock	364,284	428,571
Warrants issued in conjunction with notes payable to related party	-	2,250,000
Warrants issued in conjunction with notes payable	64,287	64,287
Warrants issued in conjunction with Note payable to affiliate	483,750	491,250
Warrants issued in conjunction with convertible debentures	-	67,500
Warrants issued as liquidating damages	150,000	-
Warrants issued as consideration for leasing space	600,000	-
Series A Convertible Preferred Stock	214,287	428,571

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2001 consisted of the following:

Land	\$ 1,450,000
Building and improvements	13,089,375
Vehicles	113,269
Furniture and equipment	17,223,095
	31,875,739
Less accumulated depreciation	(4,770,535)

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

Total

\$27,105,204
=====

8

GENESISINTERMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 4 - CONVERTIBLE DEBENTURE

On March 14, 2001, the Company entered into a Securities Purchase Agreement whereby the Company issued a 7% convertible debenture in the amount of \$3,000,000. The debentures are convertible into the Company's common stock at a conversion price of \$6.83. The debenture is to be repaid either in cash or by conversion to common stock as follows: \$1,000,000 on each of April 15, May 15 and June 15, 2001, subject in the case of cash repayment to the effectiveness of a registration statement covering resale of the shares. In addition, the Company issued 300,000 warrants to purchase the Company's common stock at \$7.67 per share that expire on March 15, 2004. The Company has recognized an expense of \$1,623,251 related to these warrants during the six months ended June 30, 2001.

On June 4, 2001, the debenture holder converted the \$3,000,000 debenture into 445,534 shares of the Company's common stock and exercised 300,000 warrants which resulted in gross proceeds to the Company of \$2,300,000.

NOTE 5 - NOTE PAYABLE - RELATED PARTY

On January 5, 2001, the Company entered into a note payable agreement with Ultimate Holdings, Ltd ("Ultimate"), a significant stockholder of the Company, whereby Ultimate has agreed to loan the Company an additional \$5,000,000 on terms similar to the previous note payable agreements with Ultimate.

On April 16, 2001, the Company entered into another note payable agreement with Ultimate whereby Ultimate has agreed to loan the Company an additional \$15,000,000 on terms similar to the previous note payable agreements with Ultimate.

NOTE 5 - STOCKHOLDERS' EQUITY

In January 2001, warrants to purchase 64,287 shares of the Company's common stock, issued in conjunction with the Series A Convertible Preferred Stock, were exercised for proceeds of \$218,576.

During the six months ended June 30, 2001, the Company received \$411,173 and \$2,809,825 from the exercise of 152,210 employee stock options and 458,472 warrants, respectively. The Company also received \$6,985,920 from Ultimate who disgorged to the Company "short-swing" profits in such amount. Of such "short-swing" profits, the Company paid accrued interest of \$1,106,121, repaid principal of \$5,043,799 and retained \$836,000.

9

GENESISINTERMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - SEGMENT INFORMATION

The Company has four business units that have separate management and reporting infrastructures that offer different products and services. The business units have been aggregated into four reportable segments: Media, Intermedia, Properties and Car Rental. The Media group conducts direct response advertising

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

campaigns and buys media time and either sells it to third parties or uses it to market its own products. The Intermedia group is deploying the CENTERLINQ network of public access Internet kiosks in shopping malls within the United States. The Properties group maintains the Company's building and generates revenue from the building's tenants. The Car Rental group rents vehicles to consumers and commercial businesses primarily in the replacement market. Most corporate expenses, such as internal administrative costs, legal expenses, and debt issuance costs, are included in the Media group.

The Company evaluates the performance of its operating segments based on income from operations, before income taxes, accounting changes, non-recurring items, and interest income and expense.

Summarized financial information concerning the Company's reportable segments is shown in the following table as of and for the six months ended June 30, 2001:

	Revenue	Net Loss	Total Assets
Media	\$ 20,248,627	\$ (7,588,063)	\$ 12
Intermedia	350,154	(4,812,723)	14
Properties	371,295	(700,353)	12
Car Rental	3,961,013	(2,571,910)	14
Total	\$ 24,931,089	\$ (15,673,049)	\$ 54

NOTE 7 - SUBSEQUENT EVENTS

On June 29, 2001, the Company announced that it received a conditional loan commitment from Riverdale LLC ("Riverdale"), a company owned by Carl C. Icahn, the New York-based financier, for a \$100 million credit facility. In connection with the loan commitment, on July 2, 2001 the Company issued to Riverdale warrants to purchase an aggregate of 4 million shares of the Company's common stock at exercise prices ranging from \$2 to \$9 per share and granted to Riverdale registration rights with respect to the common stock issuable upon exercise of the warrants. The warrants are exercisable any time after July 2, 2001 and before July 1, 2005. Concurrently with the issuance of the warrants by the Company, the Company's CEO granted Riverdale an option to purchase 1.0 million and 500,000 shares of common stock held by him, at purchase prices of \$2.00 and \$4.00 per share, respectively. In a related transaction, the Company's CEO and Ultimate granted options to the Company to acquire 3.0 million shares of common stock at exercise prices of \$2.00 and \$9.00 per share. Such options are exercisable if Riverdale exercises the corresponding series of warrants issued by the Company. If Riverdale exercises all of the warrants issued by the Company and the Company exercises all of the options issued to it, the Company will issue a net of 1.0 million shares at \$2.00 per share. In the transaction, Riverdale agreed to lock-up their shares acquirable upon exercise of the warrants and options for a period of one-year and the Company's CEO and Ultimate agreed to lock-up the shares presently held by them for the same one-year period, subject to certain permissible resales to institutions and to certain non-institutional purchasers who agree to lock-up their shares.

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

NOTE 7 - SUBSEQUENT EVENTS, CONTINUED

In June 2000, the Company issued a warrant to purchase 20 shares of the common stock of the Company's CENTERLINQ, Inc. subsidiary at an exercise price of \$250,000 per share. The subsidiary warrant vested immediately and was issued pursuant to a securities purchase agreement as an incentive for Infinity Outdoor to maximize its joint marketing efforts with the Company. At any time during the term of the subsidiary warrant, if the Company has not completed a public offering under an effective registration statement for the sale of shares of common stock of CENTERLINQ, Inc. for at least \$20,000,000, Infinity Outdoor has the option to tender the subsidiary warrant in exchange for a warrant to purchase 967,740 shares of the Company's common stock at an exercise price of \$5.17 per share. In July 2001, Infinity Outdoor tendered its subsidiary warrant for a warrant to purchase 967,740 shares of the Company's common stock at \$5.17 per share and exercised this warrant resulting in gross proceeds to the Company of \$5,000,000.

11

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

GENERAL

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related footnotes for the year ended December 31, 2000 included in our Annual Report on Form 10-K. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

OVERVIEW

We acquired Car Rental Direct.com, Inc. ("CRD") in the spring of 2000. CRD competes primarily in the replacement car rental market. The replacement segment of the auto rental industry consists of rentals to replace temporarily vehicles that have been sold, stolen or are being repaired for mechanical or accident reasons. CRD operates locations in Southern California and Arizona, and currently maintains a fleet of approximately 1,000 cars. CRD has established vehicle fleet financing lines to build its vehicle inventory and is in discussions with lenders for short-term credit facilities to support equipment necessary to open additional locations. CRD recently diversified into the automobile retailing sector, with the opening of a facility in Southern California to sell pre-owned and retired rental vehicles. An important part of our strategy in acquiring CRD was the opportunity to bring on-line efficiencies to the business. CRD intends to augment their service by allowing consumers the opportunity to complete a rental transaction entirely on-line and have the car delivered to their chosen destination. We issued 260,000 shares of our common stock valued at \$4,420,000 for all the issued and outstanding shares of CRD. The transaction was accounted for using the purchase method of accounting; accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair value of the net assets acquired is attributed to goodwill, which is being amortized over seven years.

In May 2000, we acquired Dynatype Design and Graphics Centers, Inc. ("DynaMedia"). DynaMedia is a 20-year-old full-service integrated marketing, communications and design firm. DynaMedia provides its clients with a comprehensive scope of services including branding, signage, point of sale, point of purchase and packaging expertise. Additionally, the firm is a leading participant in web design, new media and presentation graphics. Its clients include leading brand name organizations such as IBM, Bank of America, Warner

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

Brothers, Gateway, Toshiba and Norwest. We issued 90,000 shares of our common stock for all of the issued and outstanding shares of common stock of DynaMedia. However, effective December 31, 2000, we sold back to the original stockholder of DynaMedia all the issued and outstanding shares of common stock of DynaMedia in exchange for the 90,000 shares originally issued in this transaction.

We plan to aggressively grow our business both internally and through strategic acquisitions. We are aggressively looking to acquire businesses that will fit into our business model.

12

RESULTS OF OPERATIONS

Three months Ended June 30, 2001 vs. June 30, 2000

	THREE MONTHS ENDED 6/30/2001 <small>(in thousands)</small>	THREE MONTHS ENDED 6/30/2000	% OF REVENUE 2001	%
REVENUE	\$12,396	\$ 7,315	100.0%	100
COST OF REVENUE	3,746	2,789	30.2%	30
GROSS PROFIT	8,650	4,526	69.8%	69
OPERATING EXPENSES				
Selling, general and administrative expenses	11,900	9,844	96.0%	133
Depreciation and amortization	1,578	1,022	12.7%	13
Loss from operation of Dynamedia	-	41	0.0%	0
Total operating expenses	13,478	10,907	108.7%	144
LOSS FROM OPERATIONS	(4,828)	(6,381)	-38.9%	-63
OTHER INCOME (EXPENSES)				
Gain on sale of marketable securities	24	-	0.2%	0
Interest expense	(1,474)	(959)	-11.9%	-10
Financing costs	(1,452)	-	-11.7%	-10
Total other income (expenses)	(2,902)	(959)	-23.4%	-23
LOSS BEFORE TAXES	(7,730)	(7,340)	-62.4%	-73
INCOME TAXES	-	-	0.0%	0
NET LOSS	\$(7,730)	\$(7,340)	-62.4%	-73

Revenue for the three months ended June 30, 2001 increased by \$5,081,000 or 69.5% from \$7,315,000 for the three months ended June 30, 2000 to \$12,396,000 for the same period in 2001. The increase in revenue was due to the following:

- o Car rental revenue for the three months ended June 30, 2001 increased by \$1,376,000 or 129.9% from \$1,060,000 for the three months ended June 30, 2000 to \$2,436,000 for the same period in 2000. The increase is a result of

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

opening new rental locations and higher utilization of our rental fleet.

- o Commissions and royalties for the three months ended June 30, 2001 increased by \$3,916,000 or 407.1% from \$962,000 for the three months ended June 30, 2000 to \$4,878,000 for the same period in 2001. These commissions are amounts received from the sale of other companies' products primarily through our call center in St. George, Utah. We normally receive commissions of 20% to 50%. The increase is due to the expansion of our staff in our St. George, Utah location and obtaining new contracts to sell other companies' products.

13

Cost of revenue for the three months ended June 30, 2001 increased by \$957,000 or 34.3% from \$2,789,000 for the three months ended June 30, 2000 to \$3,746,000 for the same period in 2001. The increase in cost of revenue was due to the following:

- o Direct product costs for the three months ended June 30, 2001 increased by \$423,000 or 40.3% from \$1,049,000 for the three months ended June 30, 2000 to \$1,472,000 for the same period in 2001. The increase was due to more products being sold. Direct product costs as a percentage of product sales increased from 22.3% for the three months ended June 30, 2000 to 31.4% for the same period in 2001. The increase is due to higher product costs associated with our new products and programs when compared to the products sold by us during 2000.
- o Cost of renting vehicles for the three months ended June 30, 2001 increased by \$1,031,000 or 111.8% from \$922,000 for the three months ended June 30, 2000 to \$1,953,000 for the same period in 2001. The cost of renting a vehicle compared to the revenue generated from such rental decreased from 87.0% for the three months ended June 30, 2000 to 80.1% for the same period in 2001. The decrease is a result of higher utilization of our rental fleet in 2001.

Selling, general and administrative expenses for the three months ended June 30, 2001 increased by \$2,056,000 or 20.9% from \$9,844,000 for the three months ended June 30, 2000 to \$11,900,000 for the same period in 2001. The increase was due principally to an increase in payroll and related benefits in our St. George, Utah call center and hiring additional personnel to staff our rental car locations. We expensed \$2,926,000 in media airtime during the three months ended June 30, 2001 compared to \$2,378,000 for the same period in 2000.

Depreciation and amortization expense for the three months ended June 30, 2001 increased by \$556,000 or 54.4% from \$1,022,000 for the three months ended June 30, 2000 to \$1,578,000 for the same period in 2001. The increase in depreciation and amortization expense is due to the increase of our depreciable assets, especially our CENTERLINQ kiosks, and the goodwill associated with the Car Rental Direct acquisition. Depreciation expense of \$451,000 related to the vehicle fleet is included in cost of revenue.

Effective January 1, 2000 we acquired DynaMedia and effective December 31, 2000, we sold DynaMedia back to its original owner. For the three months ended June 30, 2000, DynaMedia reported a net loss of \$41,000 on revenues of \$310,000.

Gain on sale of assets for the three months ended June 30, 2001 increased by \$24,000 from \$0 for the three months ended June 30, 2000 to \$24,000 for the same period in 2001. Gain on sale of assets for the three months ended June 30, 2001 relates to the sale of certain assets of CENTERLINQ. There were no such gains during the three months ended June 30, 2000.

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

Interest expense for the three months ended June 30, 2001 increased by \$515,000 or 53.7% from \$959,000 for the three months ended June 30, 2000 to \$1,474,000 for the same period in 2001. The increase in interest expense was due to an increase in our line of credit resulting from the acquisition of Car Rental Direct and the significant increase in notes payable to a related party.

Financing costs for the three months ended June 30, 2001 increased by \$1,452,000 from \$0 for the three months ended June 30, 2000 to \$1,452,000 for the same period in 2001. The financing cost for the three months ended June 30, 2001 related to the amortization of the value of warrants issued in connection with a convertible debenture in March 2001 and certain other fees in connection with raising capital. There were no such financing costs for the three months ended June 30, 2000.

14

Net loss for the three months ended June 30, 2001 increased by \$390,000 or 5.3% from \$7,340,000 for the three months ended June 30, 2000 to \$7,730,000 for the same period in 2001. The increase in the net loss is principally due to significantly higher sales offset by significantly higher selling, general and administrative expenses incurred to promote our new products and programs and to expand our CENTERLINQ network of kiosks, and higher financing costs associated with raising additional capital.

Six months Ended June 30, 2001 vs. June 30, 2000

	SIX MONTHS ENDED 6/30/2001 (in thousands)	SIX MONTHS ENDED 6/30/2000	% OF REVENUE 2001	%
REVENUE	\$ 24,931	\$ 14,788	100.0%	100
COST OF REVENUE	6,350	4,684	25.5%	31
GROSS PROFIT	18,581	10,104	74.5%	68
OPERATING EXPENSES				
Selling, general and administrative expense	26,630	19,465	106.8%	131
Depreciation and amortization	2,998	1,842	12.0%	12
Income from operation of Dynamedia		(69)	0.0%	-0
Total operating expenses	29,628	21,238	118.8%	143
LOSS FROM OPERATIONS	(11,047)	(11,134)	-44.3%	-75
OTHER INCOME (EXPENSES)				
Gain on sale of assets	202		0.8%	0
Interest expense	(3,105)	(1,236)	-12.5%	-8
Financing costs	(1,723)	(103)	-6.9%	-0
Total other income (expenses)	(4,626)	(1,339)	-18.6%	-9
LOSS BEFORE TAXES	(15,673)	(12,473)	-62.9%	-84
INCOME TAXES	-	-	0.0%	0

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

NET LOSS	\$ (15,673)	\$ (12,473)	-62.9%	-84
	=====	=====	=====	=====

Revenue for the six months ended June 30, 2001 increased by \$10,143,000 or 68.6% from \$14,788,000 for the six months ended June 30, 2000 to \$24,931,000 for the same period in 2001. The increase in revenue was due to the following:

15

- o Product sales for the six months ended June 30, 2001 increased by \$1,886,000 or 18.1% from \$10,397,000 for the six months ended June 30, 2000 to \$12,283,000 for the same period in 2001. The increase is principally a result of our success in selling our new products, principally, our herbal diet supplement.
- o Car rental revenue for the six months ended June 30, 2001 increased by \$2,901,000 or 273.7% from \$1,060,000 for the six months ended June 30, 2000 to \$3,961,000 for the same period in 2000. The increase is a result of opening new rental locations and having six months of sales in 2001 compared to only three months of sales in 2000. We acquired Car Rental Direct on April 1, 2000 so there was no such revenue reported for the first three months in 2000.
- o Commissions and royalties for the six months ended June 30, 2001 increased by \$5,882,000 or 286.9% from \$2,050,000 for the six months ended June 30, 2000 to \$7,932,000 for the same period in 2001. These commissions are amounts received from the sale of other companies' products primarily through our call center in St. George, Utah. We normally receive commissions of 20% to 50%. The increase is due to the expansion of our staff in our St. George, Utah location and obtaining new contracts to sell other companies' products.

Cost of revenue for the six months ended June 30, 2001 increased by \$1,666,000 or 35.6% from \$4,684,000 for the six months ended June 30, 2000 to \$6,350,000 for the same period in 2001. The increase in cost of revenue was due to the following:

- o Direct product costs for the six months ended June 30, 2001 decreased by \$56,000 or 2.2% from \$2,607,000 for the six months ended June 30, 2000 to \$2,551,000 for the same period in 2001. The decrease was due to lower product costs. Direct product costs as a percentage of product sales decreased from 25.1% for the six months ended June 30, 2000 to 20.7% for the same period in 2001. The decrease is due to lower product costs associated with our new products and programs when compared to the products sold by us during 2000.
- o Cost of renting vehicles for the six months ended June 30, 2001 increased by \$2,247,000 or 243.7% from \$922,000 for the six months ended June 30, 2000 to \$3,169,000 for the same period in 2001. The increase is due to rental costs being incurred for only three months in 2000 compared to six months in 2001. The cost of renting a vehicle compared to the revenue generated from such rental decreased from 87.0% for the six months ended June 30, 2000 to 80.0% for the same period in 2001. The decrease is a result of higher utilization of our rental fleet in 2001.

Selling, general and administrative expenses for the six months ended June 30, 2001 increased by \$7,165,000 or 36.8% from \$19,465,000 for the six months ended June 30, 2000 to \$26,630,000 for the same period in 2001. The increase was due principally to an increase in payroll and related benefits in our St. George, Utah call center and hiring additional personnel to staff our rental car

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

locations. We expensed \$6,005,000 in media airtime during the six months ended June 30, 2001 compared to \$5,970,000 for the same period in 2000.

Depreciation and amortization expense for the six months ended June 30, 2001 increased by \$1,156,000 or 62.8% from \$1,842,000 for the six months ended June 30, 2000 to \$2,998,000 for the same period in 2001. The increase in depreciation and amortization expense is due to the increase of our depreciable assets, especially our CENTERLINQ kiosks and the goodwill associated with the Car Rental Direct acquisition. Depreciation expense of \$1,119,000 related to the vehicle fleet is included in cost of revenue.

16

Effective January 1, 2000 we acquired DynaMedia and effective December 31, 2000, we sold DynaMedia back to its original owner. For the six months ended June 30, 2000, DynaMedia reported net income of \$69,000 on revenues of \$733,000.

Gain on sale of assets for the six months ended June 30, 2001 increased by \$202,000 from \$0 for the six months ended June 30, 2000 to \$202,000 for the same period in 2001. Gain on sale of assets for the six months ended June 30, 2001 relates to the sale of our investment in Fashionmall.com, Inc. that resulted in a gain of \$178,000 and the sale of certain assets of CENTERLINQ that resulted in a gain of \$24,000. There were no such gains during the six months ended June 30, 2000.

Interest expense for the six months ended June 30, 2001 increased by \$1,869,000 or 151.2% from \$1,236,000 for the six months ended June 30, 2000 to \$3,105,000 for the same period in 2001. The increase in interest expense was due to an increase in our line of credit resulting from the acquisition of Car Rental Direct and the significant increase in notes payable to a related party.

Financing costs for the six months ended June 30, 2001 increased by \$1,620,000 or 1,572.8% from \$103,000 for the six months ended June 30, 2000 to \$1,723,000 for the same period in 2001. The financing costs for the six months ended June 30, 2000 related to the issuance of stock in February 2000 to secure a \$1,000,000 bridge loan. The financing costs for the six months ended June 30, 2001 related to the value of warrants issued in connection with a convertible debenture in March 2001 and certain other fees in connection with raising capital.

Net loss for the six months ended June 30, 2001 increased by \$3,200,000 or 25.7% from \$12,473,000 for the six months ended June 30, 2000 to \$15,673,000 for the same period in 2001. The increase in the net loss is principally due to significantly higher sales offset by significantly higher selling, general and administrative expenses incurred to promote our new products and programs and to expand our CENTERLINQ network of kiosks, and higher financing cost associated with raising additional capital.

LIQUIDITY AND CAPITAL RESOURCES

We financed our operations initially from cash generated from operations. More recently, we have financed our operations through the sale of common and preferred stock in private placement offerings, sale of common stock in our initial public offering, a long-term mortgage, a line of credit, and borrowings.

From November 1999 to June 2001, we borrowed from Ultimate \$49,040,683 through the issuance of debentures. Ultimate is a significant stockholder. We repaid \$14,379,238 during the same period. In connection with the debenture issued in November 1999, we issued warrants to purchase 2,100,000 shares of common stock with an exercise price of \$2.33. The warrant for 2,100,000 was exercised in August 2000. The exercise price for these warrants of \$4,900,000 was paid via a

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

reduction of the debenture.

In February 2000, we issued a convertible debenture in the amount of \$1,000,000 along with a warrant to purchase 67,500 shares of common stock at an exercise price of \$4.00 and the issuance of 45,000 shares of our common stock. The debenture is convertible into common stock at \$1.67 per share if it is held to maturity. The debenture was due on April 7, 2000 and has been repaid. We took a charge to earnings for the 45,000 common shares issued in connection with this debenture in the amount of \$103,125. In April 2001, the 67,500 warrants were exercised resulting in gross proceeds to us of \$270,000.

17

In connection with our acquisition of CRD. in April 2000, we assumed a convertible debenture in the amount of \$244,000 and lines of credit to purchase vehicles. The convertible debentures were paid in cash during 2000. The outstanding balance on these lines of credit as of June 30, 2001 was \$8,349,587.

On March 14, 2001, we entered into a Securities Purchase Agreement under which we issued 7% convertible debentures in the amount of \$3,000,000. The debentures are convertible into our common stock at a conversion price of \$6.83. The debenture is to be repaid either in cash or by conversion to common stock as follows: \$1,000,000 on each of April 15, May 15 and June 15, 2001, subject in the case of cash repayment to the effectiveness of a registration statement covering resale of the shares. In addition, we issued warrants to purchase 300,000 shares of our common stock at \$7.67 per share that expire on March 15, 2004. On June 4, 2001, the debenture holder converted the \$3,000,000 debenture into 445,534 shares of the Company's common stock and exercised 300,000 warrants which resulted in gross proceeds to the Company of \$2,300,000.

On January 5, 2001 and April 16, 2001, we entered into additional note payable agreements with Ultimate whereby Ultimate has agreed to loan us an additional \$5,000,000 and \$15,000,000, respectively, on terms similar to the previous note payable agreements with Ultimate.

On June 29, 2001, we announced that we received a conditional loan commitment from Riverdale LLC, a company owned by Carl C. Icahn, the New York-based financier, for a \$100 million credit facility. The credit facility will be used to make strategic acquisitions that fit into our business model and that are approved by Riverdale. In connection with the loan commitment, on July 2, 2001 we issued to Riverdale warrants to purchase an aggregate of 4 million shares of our common stock at exercise prices ranging from \$2 to \$9 per share and granted to Riverdale registration rights with respect to the common stock issuable upon exercise of the warrants. The warrants are exercisable any time after July 2, 2001 and before July 1, 2005. Concurrently with the issuance of the warrants by us, our CEO granted Riverdale options to purchase 1.0 million and 500,000 shares of common stock held by him, at purchase prices of \$2.00 and \$4.00 per share, respectively. In a related transaction, our CEO and Ultimate granted options to us to acquire 3.0 million shares of common stock at exercise prices of \$2.00 and \$9.00 per share. Such options are exercisable if Riverdale exercises the corresponding series of warrants issued by us. If Riverdale exercises all of the warrants issued by us and we exercise all of the options issued to us, we will issue a net of 1.0 million shares at \$2.00 per share.

In June 2000, we issued a warrant to purchase 20 shares of the common stock of our CENTERLINQ, Inc. subsidiary at an exercise price of \$250,000 per share. The subsidiary warrant vested immediately and was issued pursuant to a securities purchase agreement as an incentive for Infinity Outdoor to maximize its joint marketing efforts with us. At any time during the term of the subsidiary warrant, if we have not completed a public offering under an effective registration statement for the sale of shares of common stock of CENTERLINQ,

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

Inc. for at least \$20,000,000, Infinity Outdoor has the option to tender the subsidiary warrant in exchange for a warrant to purchase 967,740 shares of GenesisIntermedia common stock at an exercise price of \$5.17 per share. In July 2001, Infinity Outdoor tendered its subsidiary warrant for a warrant to purchase 967,740 shares of GenesisIntermedia common stock at \$5.17 per share and exercised this warrant resulting in gross proceeds to us of \$5,000,000.

During the six months ended June 30, 2001, we spent \$365,047 on capital expenditures and used \$13,212,140 in operations.

We expect to spend additional capital to expand our product lines and our telemarketing division, and to make strategic acquisitions. We anticipate spending \$15 to \$20 million over the next 18 months to develop and deploy interactive multimedia kiosks in regional shopping malls across the United States and in other entertainment centers.

18

We believe that our current cash and cash equivalents on hand, together with existing credit facilities, principally the note agreements with Ultimate, the cash flow expected to be generated from operations and cash generated from future sales of our equity, will be adequate to satisfy our current and planned operations through the middle of 2002. We believe that the credit facility provided by Riverdale will allow us to make strategic acquisitions of profitable companies that fit into our business model. We are also negotiating a sale-leaseback of our office building, which will help to finance future operations and acquisitions. If we are not successful in raising additional capital or finding strategic acquisitions, our ability to expand CENTERLINQ and grow our business through acquisitions will be adversely affected.

FORWARD LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Stockholders are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, our ability to install new kiosks, general market conditions, competition and pricing. Although we believe the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements contained in the report will prove to be accurate.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved from time to time in various claims and legal actions incident to its operations, either as plaintiff or defendant. The Company vigorously defends itself against all lawsuits filed by plaintiffs. The Company is not aware of any current litigation that it believes would have a material impact on the financial position or results of operations of the Company.

Item 2. Changes in Securities and Use of Proceeds

In July 2001, the Company issued a warrant to Infinity Outdoor to purchase 967,740 shares of common stock at \$5.17 per share. Infinity Outdoor exercised this warrant resulting in gross proceeds to the Company of \$5,000,000. The sale of the securities were exempt under the Securities Act of 1933, as amended, in reliance on Section 4(2) or Regulation D promulgated thereunder as a transaction by an issuer not involving a public offering.

Edgar Filing: GENESISINTERMEDIA INC - Form 10-Q

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable

19

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

- (1) Current Report on Form 8-K dated June 29, 2001 filed with the Securities and Exchange Commission on July 2, 2001.
- (2) Current Report on Form 8-K dated June 29, 2001 filed with the Securities and Exchange Commission on July 2, 2001.
- (3) Current Report on Form 8-K/A dated June 29, 2001 filed with the Securities and Exchange Commission on July 5, 2001.

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.

GENESISINTERMEDIA, INC.

By: /s/ Douglas E. Jacobson

Douglas E. Jacobson
Chief Financial and Principal
Accounting Officer

Date: August 14, 2001

20