

GAIAM, INC
Form 10-Q
November 12, 2013
Table of Contents

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

Form 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

Commission File Number 000-27517

GAIAM, INC.

(Exact name of registrant as specified in its charter)

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COLORADO
(State or other jurisdiction of
incorporation or organization)

84-1113527
(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)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| Class | Outstanding at November 4, 2013 |
|--|---------------------------------|
| Class A Common Stock (\$.0001 par value) | 17,390,512 |
| Class B Common Stock (\$.0001 par value) | 5,400,000 |

Table of Contents**GAIAM, INC.****FORM 10-Q****INDEX**

| | |
|---|----|
| <u>PART I FINANCIAL INFORMATION</u> | 3 |
| Item 1. <u>Financial Statements (Unaudited):</u> | 3 |
| <u>Condensed consolidated balance sheets at September 30, 2013 and December 31, 2012</u> | 4 |
| <u>Condensed consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012</u> | 5 |
| <u>Condensed consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012</u> | 6 |
| <u>Condensed consolidated statements of cash flows for the nine months ended September 30, 2013 and 2012</u> | 7 |
| <u>Notes to interim condensed consolidated financial statements</u> | 8 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 12 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 17 |
| Item 4. <u>Controls and Procedures</u> | 17 |
| <u>PART II OTHER INFORMATION</u> | 17 |
| Item 1. <u>Legal Proceedings</u> | 17 |
| Item 1A. <u>Risk Factors</u> | 17 |
| Item 6. <u>Exhibits</u> | 18 |
| <u>SIGNATURES</u> | 19 |
| <u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u> | |

This report may contain forward-looking statements that involve risks and uncertainties. The words "anticipate," "believe," "plan," "estimate," "expect," "strive," "future," "intend" and similar expressions are intended to identify such forward-looking statements. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures about Market Risk" and elsewhere in this report. Risks and uncertainties that could cause actual results to differ include, without limitation, general economic conditions, competition, loss of key personnel, pricing, brand reputation, consumer trends, acquisitions, new initiatives undertaken by us, security and information systems, legal liability for website content, merchandise supply problems, failure of third parties to provide adequate service, our reliance on centralized customer service, overstocks and merchandise returns, our reliance on a centralized fulfillment center, increases in postage and shipping costs, E-commerce trends, future Internet related taxes, our founder's control of us, fluctuations in quarterly operating results, customer interest in our products, the effect of government regulation and other risks and uncertainties included in our filings with the Securities and Exchange Commission. We caution you that no forward-looking statement is a guarantee of future performance, and you should not place undue reliance on these forward-looking statements which reflect our view only as of the date of this report. We undertake no obligation to update any forward-looking information.

Table of Contents

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 United States Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to these rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, the unaudited interim condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, our consolidated financial position as of September 30, 2013, the interim results of operations for the three and nine months ended September 30, 2013 and 2012, and cash flows for the nine months ended September 30, 2013 and 2012. These interim statements have not been audited. The balance sheet as of December 31, 2012 was derived from our audited consolidated financial statements included in our annual report on Form 10-K. The interim condensed consolidated financial statements contained herein should be read in conjunction with our audited financial statements, including the notes thereto, for the year ended December 31, 2012.

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

| (in thousands, except share and per share data) | September 30, 2013 (unaudited) | December 31, 2012 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 10,869 | \$ 9,858 |
| Accounts receivable, net | 48,942 | 57,533 |
| Inventory, less allowances | 33,660 | 29,840 |
| Deferred advertising costs | 4,577 | 4,324 |
| Deferred tax assets | 5,547 | 9,129 |
| Receivable from related party | 3 | 64 |
| Advances | 17,732 | 13,197 |
| Other current assets | 2,670 | 2,463 |
| Total current assets | 124,000 | 126,408 |
| Property and equipment, net | 23,910 | 23,998 |
| Media library, net | 12,867 | 13,090 |
| Deferred tax assets | 14,082 | 14,692 |
| Goodwill | 10,031 | 9,405 |
| Other intangibles, net | 3,923 | 5,608 |
| Other assets | 826 | 661 |
| Total assets | \$ 189,639 | \$ 193,862 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Line of credit | \$ 15,422 | \$ 16,231 |
| Accounts payable | 28,623 | 26,738 |
| Participations payable | 13,862 | 28,046 |
| Accrued liabilities | 3,978 | 3,975 |
| Total current liabilities | 61,885 | 74,990 |
| Commitments and contingencies | | |
| Equity: | | |
| Gaiam, Inc. shareholders' equity: | | |
| Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 17,354,683 and 17,330,464 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively | 2 | 2 |
| Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at September 30, 2013 and December 31, 2012 | 1 | 1 |
| Additional paid-in capital | 160,157 | 159,614 |
| Accumulated other comprehensive income | 38 | 118 |
| Accumulated deficit | (35,969) | (43,661) |
| Total Gaiam, Inc. shareholders' equity | 124,229 | 116,074 |
| Noncontrolling interest | 3,525 | 2,798 |
| Total equity | 127,754 | 118,872 |
| Total liabilities and equity | \$ 189,639 | \$ 193,862 |

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See accompanying Notes to the interim condensed consolidated financial statements.

Table of Contents**GAIAM, INC.****Condensed consolidated statements of operations**

| (in thousands, except per share data) | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|---------------------|--|---------------------|
| | 2013 (unaudited) | 2012 (unaudited) | 2013 (unaudited) | 2012 (unaudited) |
| Net revenue | \$ 52,798 | \$ 42,983 | \$ 153,975 | \$ 135,762 |
| Cost of goods sold | 24,144 | 18,912 | 69,481 | 56,574 |
| Gross profit | 28,654 | 24,071 | 84,494 | 79,188 |
| Expenses: | | | | |
| Selling and operating | 26,858 | 21,771 | 79,381 | 72,828 |
| Corporate, general and administration | 3,099 | 2,471 | 10,151 | 8,125 |
| Acquisition-related costs | | | | 1,667 |
| Total expenses | 29,957 | 24,242 | 89,532 | 82,620 |
| Loss from operations | (1,303) | (171) | (5,038) | (3,432) |
| Interest and other expense, net | (123) | (192) | (404) | (259) |
| Gain on sale of investment | 1,975 | | 18,404 | |
| Loss from equity method investment | | (15,940) | | (17,580) |
| Income (loss) before income taxes and noncontrolling interest | 549 | (16,303) | 12,962 | (21,271) |
| Income tax expense (benefit) | 245 | (5,377) | 4,897 | (6,938) |
| Net income (loss) | 304 | (10,926) | 8,065 | (14,333) |
| Net income attributable to noncontrolling interest | (184) | (231) | (373) | (96) |
| Net income (loss) attributable to Gaiam, Inc. | \$ 120 | \$ (11,157) | \$ 7,692 | \$ (14,429) |
| Net income (loss) per share attributable to Gaiam, Inc. common shareholders: | | | | |
| Basic | \$ 0.01 | \$ (0.49) | \$ 0.34 | \$ (0.64) |
| Diluted | \$ 0.01 | \$ (0.49) | \$ 0.34 | \$ (0.64) |
| Weighted-average shares outstanding: | | | | |
| Basic | 22,751 | 22,704 | 22,741 | 22,702 |
| Diluted | 22,765 | 22,704 | 22,741 | 22,702 |

See accompanying Notes to the interim condensed consolidated financial statements.

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

| (in thousands, except per share data) | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2013 (unaudited) | 2012 | 2013 (unaudited) | 2012 |
| Net income (loss) | \$ 304 | \$ (10,926) | \$ 8,065 | \$ (14,333) |
| Other comprehensive income (loss), foreign currency translation, net of tax | 18 | 14 | (152) | 10 |
| Comprehensive income (loss) | 322 | (10,912) | 7,913 | (14,323) |
| Less: comprehensive income attributable to the noncontrolling interest | 193 | 238 | 301 | 101 |
| Comprehensive income (loss) attributable to Gaiam, Inc. shareholders | \$ 129 | \$ (11,150) | \$ 7,612 | \$ (14,424) |

See accompanying Notes to the interim condensed consolidated financial statements.

Table of Contents**GAIAM, INC.****Condensed consolidated statements of cash flows**

| (in thousands) | For the Nine Months Ended September 30, | |
|--|--|-------------|
| | 2013 | 2012 |
| | (unaudited) | |
| Operating activities | | |
| Net income (loss) | \$ 8,065 | \$ (14,333) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,868 | 1,681 |
| Amortization | 4,060 | 4,503 |
| Share-based compensation expense | 518 | 776 |
| Deferred and stock option income tax expense (benefit) | 4,310 | (7,085) |
| (Gain) loss on translation of foreign currency | 42 | (58) |
| Gain on sale of investment | (18,404) | |
| Loss from equity method investment | | 17,580 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable, net | 8,628 | 22,030 |
| Inventory, net | (3,891) | (10,238) |
| Deferred advertising costs | (1,137) | (959) |
| Receivable from related party | 61 | 391 |
| Advances | (4,535) | (6,270) |
| Other current assets | (378) | (721) |
| Accounts payable | 1,868 | 8,282 |
| Participations payable (b) | (14,184) | 3,892 |
| Accrued liabilities | (68) | (71) |
| Net cash provided by (used in) operating activities (a) | (13,177) | 19,400 |
| Investing activities | | |
| Net proceeds from sale of investment | 18,404 | |
| Purchase of property, equipment and media rights | (2,839) | (3,046) |
| Purchase of businesses, net of acquired cash | (333) | (13,545) |
| Net cash provided by (used in) investing activities | 15,232 | (16,591) |
| Financing activities | | |
| Net borrowings (payments) on revolving line of credit | (809) | 20,925 |
| Net proceeds from issuance of stock upon exercise of options | 26 | |
| Principal payments on debt (a) | | (18,703) |
| Subsidiary's payment of dividend to noncontrolling interest | | (583) |
| Net cash provided by (used in) financing activities | (783) | 1,639 |
| Effect of exchange rates on cash | (261) | 64 |
| Net change in cash | 1,011 | 4,512 |
| Cash at beginning of period | 9,858 | 14,545 |
| Cash at end of period | \$ 10,869 | \$ 19,057 |

Supplemental cash flow information

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| | | | | |
|-------------------|----|-----|----|-----|
| Income taxes paid | \$ | 506 | \$ | 411 |
| Interest paid | \$ | 404 | \$ | 319 |

- (a) Net cash provided by operating activities for the nine months ended September 30, 2012 includes approximately \$18.7 million of net cash provided by purchased Vivendi Entertainment (Vivendi) working capital, which was used to partially fund the acquisition of Vivendi. Excluding the net cash flows from the purchased Vivendi working capital, net cash provided by operating activities would have been \$0.7 million for the nine months ended September 30, 2012.
- (b) Net cash provided by participations payable for the nine months ended September 30, 2012 does not include participations payments for Vivendi sales during the fourth quarter of 2011 as we didn't acquire Vivendi until March 28, 2012. The fourth quarter is our seasonably largest sales quarter and participations payable resulting from such sales are normally not paid until the following quarter. Also, net cash used in participations payable for the nine months ended September 30, 2013 includes certain payments that were due in December 2012, but not paid until January 2013.

See accompanying Notes to the interim condensed consolidated financial statements

Table of Contents**Notes to interim condensed consolidated financial statements****1. Organization, Nature of Operations, and Principles of Consolidation**

References in this report to we, us, our, Gaiam or the Company refer to Gaiam, Inc. and its consolidated subsidiaries, unless we indicate otherwise. We are a lifestyle media company providing a broad selection of information, media, products and services to customers who value personal development, wellness, ecological lifestyles, responsible media and conscious community. We were incorporated under the laws of the State of Colorado on July 7, 1988.

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States, or 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.

2. Significant Accounting Policies

No changes were made to our significant accounting policies during the three and nine months ended September 30, 2013.

Goodwill

The following table sets forth the changes in goodwill for the period December 31, 2012 through September 30, 2013 by segment.

| (in thousands) | Direct to Consumer Segment | Business Segment | Total |
|-------------------------------|----------------------------------|---------------------|-----------|
| Balance at December 31, 2012 | \$ 2,673 | \$ 6,732 | \$ 9,405 |
| Acquisitions | 626 | | 626 |
| Balance at September 30, 2013 | \$ 3,299 | \$ 6,732 | \$ 10,031 |

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.

3. Related Party Transactions

Under Intercorporate Services and Industrial Building Lease Agreements, in the ordinary course of business, we have billed and collected charges at least quarterly for services performed and facilities utilized by Real Goods Solar, Inc. (Real Goods Solar or RSOL). At RSOL s request, we ceased performing services for RSOL after September 30, 2013 and the Intercorporate Services Agreement terminates on December 19, 2013.

On May 28, 2013, we sold in the public market 6,017,500 shares of our investment in Real Goods Solar Class A common stock for an average gross per share sale price of \$2.7552 and total net proceeds and gain of approximately \$16.4 million. Following this sale, our Chairman resigned as Chairman of RSOL s board and, thus, we no longer had significant influence over Real Goods Solar. Therefore, we changed our accounting for our investment in RSOL from the equity to cost method. Due to this accounting method change, we will no longer report our portion of RSOL s net earnings or losses each period. On September 13, 2013, we sold in the public market another 1,000,000 shares of RSOL for an average gross per share price of \$2.00 and total net proceeds and gain of approximately \$2.0 million.

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At September 30, 2013, we had two subordinated loans receivable from Real Goods Solar with outstanding balances totaling \$2.6 million, which bear interest at an annual rate of 10%. The present carrying value of these loans is zero. On March 27, 2013, the maturity dates for these loans were extended, with \$1.0 million now due April 26, 2014 and \$1.6 million due April 30, 2014. On April 23, 2013, we entered into a conversion agreement with Real Goods Solar pursuant to which the principal amount of the \$1.7 million promissory note with Real Goods Solar dated March 27, 2013 was reduced by \$0.1 million in exchange for 62,111 shares of Real Goods Solar's Class A common stock. The conversion ratio was determined based on the closing market price of Real Goods Solar's Class A common stock on the date of the conversion agreement. The \$1.0 million loan includes certain customary language accelerating the maturity date upon the occurrence of certain events, such as RSOL's insolvency or bankruptcy. Also, if RSOL completes a sale of at least \$50,000 of its capital stock, then we have the option of converting all or any portion of the principal and interest owing on the loan into securities in such sale at the same purchase price as paid by other purchasers in such sale.

On November 5, 2013, we collected cash from Real Goods Solar of \$2.3 million for the settlement of our two outstanding loans receivable from RSOL, less \$0.2 million for our acquisition of RSOL's tenant leasehold improvements made to our owned building in Colorado.

Table of Contents

During the three month and nine months ended September 30, 2013, we collected loan interest from Real Goods Solar of \$39 thousand and \$125 thousand, which are reported in Interest and other expense, net on our condensed consolidated statements of operations for the three and nine months ended September 30, 2013.

4. Line of Credit

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

As of September 30, 2013, the outstanding borrowings on the PNC Credit Agreement were approximately \$15.4 million at an average annual interest rate of approximately 3.24% and the amount reserved for outstanding letters of credit and other reserves was \$11.8 million. Net unamortized deferred fees and costs associated with this PNC Credit Agreement were \$0.3 million at September 30, 2013.

On October 21, 2013, the Borrowers paid in full the outstanding balance owed to PNC, \$19,621,941 (inclusive of principal and interest and other fees), and terminated the underlying PNC Credit Agreement. The Borrowers also paid an early termination fee in an amount equal to \$350,000. Upon termination, PNC released all liens granted in its favor on the collateral pledged under the PNC Credit Agreement. See Footnote 11. Subsequent Events.

5. Equity

During the nine months ended September 30, 2013, we issued, under our 2009 Long-Term Incentive Plan, 17,719 and 6,500 shares of our Class A common stock to our independent directors, in lieu of cash compensation, for services rendered during 2013, and to our employees upon the exercise of stock options, respectively. We recorded the shares issued to our directors at their estimated fair value based on the market's closing price of our stock on the date the shares were issued, which by policy is the last trading day of each quarter in which the services were rendered.

The following are reconciliations from December 31, 2012 to September 30, 2013 of the carrying amount of total equity, equity attributable to Gaiam, Inc., and equity attributable to the noncontrolling interest.

| (in thousands) | Total | Gaiam, Inc. Shareholders | | | | | |
|---|------------|--------------------------|---------------------|----------------------|-------------------------------------|-----------------|-------------------------|
| | | Comprehensive Income | Accumulated Deficit | Comprehensive Income | Accumulated Other and Class A Stock | Paid-in Capital | Noncontrolling Interest |
| Balance at December 31, 2012 | \$ 118,872 | | \$ (43,661) | \$ 118 | \$ 3 | \$ 159,614 | \$ 2,798 |
| Issuance of Gaiam, Inc. common stock and share-based compensation | 543 | | | | | 543 | |
| Noncontrolling interest portion of subsidiary's business combinations | 426 | | | | | | 426 |
| Comprehensive income: | | | | | | | |
| Net income | 8,065 | 8,065 | 7,692 | | | | 373 |
| Foreign currency translation adjustment, net of taxes of \$67 | (152) | (152) | | (80) | | | (72) |
| Comprehensive income | 7,913 | \$ 7,913 | | | | | |
| Balance at September 30, 2013 | \$ 127,754 | | \$ (35,969) | \$ 38 | \$ 3 | \$ 160,157 | \$ 3,525 |

Table of Contents**6. Other Comprehensive Income (Loss)**

The tax effects allocated to our other comprehensive income (loss) component, foreign currency translation, were as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------|-------------------------------------|-------|------------------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Before-tax amount | \$ 24 | \$ 20 | \$ (219) | \$ 13 |
| Tax expense (benefit) | 6 | 6 | (67) | 3 |
| Net-of-tax amount | \$ 18 | \$ 14 | \$ (152) | \$ 10 |

7. Share-Based Payments

During the nine months ended September 30, 2013, our employees exercised 6,500 options, and we granted 180,000 stock options under our 2009 Long-Term Incentive Plan and cancelled 2,500 stock options. Total share-based compensation expense was \$0.1 million and \$0.2 million for the three months ended September 30, 2013 and 2012, respectively, and \$0.5 million and \$0.8 million for the nine months ended September 30, 2013 and 2012, respectively, and are reported in Corporate, general and administration expenses on our condensed consolidated statements of operations.

8. Net Income (Loss) Per Share Attributable To Gaiam, Inc. Common Shareholders

Basic net income (loss) per share attributable to Gaiam, Inc. common shareholders excludes any dilutive effects of options. We compute basic net income (loss) per share attributable to Gaiam, Inc. common shareholders using the weighted average number of shares of common stock outstanding during the period. We compute diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. We excluded common stock equivalents of 1,072,000 and 1,416,000 for the three months ended September 30, 2013 and 2012, respectively, and 1,537,000 and 1,379,000 for the nine months ended September 30, 2013 and 2012, respectively, from the computation of diluted net loss per share attributable to Gaiam, Inc. common shareholders because their effect was antidilutive.

The following table sets forth the computation of basic and diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders:

| (in thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------|------------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Numerator for basic and diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders | \$ 120 | \$ (11,157) | \$ 7,692 | \$ (14,429) |
| Denominator: | | | | |
| Weighted average shares for basic net income (loss) per share attributable to Gaiam, Inc. common shareholders | 22,751 | 22,704 | 22,741 | 22,702 |
| Effect of dilutive securities: | | | | |
| Weighted average of common stock and stock options | 14 | | | |
| Denominators for diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders | 22,765 | 22,704 | 22,741 | 22,702 |
| Net income (loss) per share attributable to Gaiam, Inc. common shareholders basic | \$ 0.01 | \$ (0.49) | \$ 0.34 | \$ (0.64) |
| Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted | \$ 0.01 | \$ (0.49) | \$ 0.34 | \$ (0.64) |

9. Income Taxes

Income tax expense for the three months ended September 30, 2013 was increased by other permanent differences and income tax expense for the nine months ended September 30, 2013 was increased primarily due to the repatriation of cash from one of our foreign subsidiaries and other permanent differences.

Table of Contents**10. Segment Information**

We manage our company and aggregate our operational and financial information in accordance with two reportable segments. The direct to consumer segment contains direct response television marketing, catalog, Internet, retail store and subscription channels; and the business segment comprises retailer, media distribution, and corporate account channels.

Although we are able to track sales by channel, the management, allocation of resources, and analysis and reporting of expenses are presented on a combined basis, at the reportable segment level. Contribution margin is defined as net revenue less cost of goods sold and total operating expenses.

Financial information for our segments is as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------|------------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net revenue: | | | | |
| Direct to consumer | \$ 16,984 | \$ 15,924 | \$ 51,610 | \$ 54,415 |
| Business | 35,814 | 27,059 | 102,365 | 81,347 |
| Consolidated net revenue | 52,798 | 42,983 | 153,975 | 135,762 |
| Contribution income (loss): | | | | |
| Direct to consumer | (5,426) | (3,010) | (15,150) | (9,209) |
| Business | 4,123 | 2,839 | 10,112 | 5,777 |
| Consolidated contribution loss | (1,303) | (171) | (5,038) | (3,432) |
| Reconciliation of contribution loss to net income (loss) attributable to Gaiam, Inc.: | | | | |
| Interest and other expense, net | (123) | (192) | (404) | (259) |
| Gain on sale of investment | 1,975 | | 18,404 | |
| Loss from equity method investment in RSOL | | (15,940) | | (17,580) |
| Income tax expense (benefit) | 245 | (5,377) | 4,897 | (6,938) |
| Net income attributable to noncontrolling interest | (184) | (231) | (373) | (96) |
| Net income (loss) attributable to Gaiam, Inc. | \$ 120 | \$ (11,157) | \$ 7,692 | \$ (14,429) |

11. Subsequent Events

On October 21, 2013, we consummated the sale of GVE Newco, LLC (GVE), a wholly-owned subsidiary of ours comprised of our non-Gaiam branded entertainment media business, to Cinedigm Corp. (CIDM) for \$51.5 million, comprised of \$47.5 million in cash, 666,978 shares of CIDM's Class A common stock valued at approximately \$1 million, \$2 million of assigned accounts receivable, and a \$1 million assumed payment obligation. The sale consideration also includes a post-closing adjustment payable in cash on April 15, 2014, which is based on the final closing net working capital of GVE. We also repaid the outstanding borrowings on our PNC Credit Agreement and terminated that revolving line of credit. Following the sale, GVE will be reported as a discontinued operation, separate from our continuing operations. We retained all of our Gaiam branded health and fitness media.

On a pro forma basis, excluding the net revenue from GVE, our consolidated net revenue would have been \$40.2 million and \$34.2 million for the three months ended September 30, 2013 and 2012, respectively, and \$120.7 million and \$107.7 million for the nine months ended September 30, 2013 and 2012, respectively. Also, on a pro forma basis, excluding the net revenue from GVE, our business segment's net revenue would have been \$23.2 million and \$18.2 million for the three months ended September 30, 2013 and 2012, respectively, and \$69.1 million and \$53.3 million for the nine months ended September 30, 2013 and 2012, respectively.

Table of Contents

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

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 report. 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 are a lifestyle media and products company providing a broad selection of information, media, products and services to customers who value yoga, fitness, wellness, personal development, and responsible media. We offer our customers the ability to consume content and utilize merchandise based on these values while providing quality offerings at a price comparable to other alternatives.

Our brand is built around our ability to develop and offer media content, products, and lifestyle solutions to consumers in the LOHAS market. We market our media and products through a multi-channel approach including traditional media channels, direct to consumers via e-commerce, direct response television marketing (DRTV), subscriptions, digital streaming through Gaiam TV, and through national retailers, digital partners and corporate accounts. Our content forms the basis of our proprietary offerings, which then drive demand for parallel product and service offerings. Our operations are vertically integrated from content creation, through product development and sourcing, to customer service and distribution.

On October 21, 2013, we sold GVE, a wholly-owned subsidiary of ours comprised of our non-Gaiam branded entertainment media business, to CIDM for \$51.5 million, plus a post-closing adjustment for GVE's closing net working capital. Going forward, we intend to focus on and invest in growing our branded yoga, health, wellness, and fitness, and Gaiam TV businesses, both organically and through acquisitions. Additionally, we intend to reduce corporate and other expenses over the remainder of 2013, which will also benefit our future financial results.

We market our products and services across two segments: business and direct to consumer. GVE was part of our business segment, but in the future it will be reported as discontinued operations.

Our business segment sells directly to retailers and digital partners. Following the sale of GVE, our products were available in over 38,000 retail doors in the United States. Our business segment has also successfully expanded our brands with strategic store within store (SWIS) placements in all Sports Authority stores, bringing the total of our branded SWIS presentations to over 15,000 locations worldwide.

During the third quarter of 2013, the improvement in our business segment's net revenue was driven by strong sales of Gaiam branded yoga and fitness media and accessory products and growth of existing lines of business. Due to our compliment of branded products and our number one ranking on Nielsen's Videoscan for fitness media, we have secured category management and media aggregator roles and effectively control the yoga and fitness offerings at some of the largest retailers in the nation. This segment also continues to benefit from growth in the Gaiam Restore brand, our at-home rehabilitative and restorative offerings; Sol, our premium yoga line; and SPRI, our line of professional fitness accessories. These products continue to grow in popularity with consumers and further leverage our expansive retail footprint. We are continuing to explore ways to expand and capitalize on our strong yoga, fitness, and wellness brands.

Through its diverse media reach, the direct to consumer segment provides an opportunity to launch and support new media releases, a sounding board for new product testing, promotional opportunities, a growing subscription base, and customer feedback on Gaiam and the LOHAS industry's focus and future.

In our direct to consumer segment, we continue to work on the category and channel expansion of the Gaiam brand by moving our e-commerce and catalog offerings towards more proprietary yoga, wellness, fitness, and apparel products. During this repositioning period, we have strategically reduced catalog circulation, which we plan to ramp back up during the fourth quarter, partly with the circulation of a new fitness only catalog. This year, we completed updates for our online and catalog platforms that deliver more engaging shopping experiences to our customers that have better positioned these businesses to grow. We are also continuing to invest in and actively market our digital subscription platform, Gaiam TV.com, which will allow us to further leverage our existing subscriber base and catalog and Internet consumer relationships to grow our digital sales through the delivery of primarily exclusive media content. With over 5,000 exclusive video titles, Gaiam TV offers subscribers access to the world's largest online library of yoga, fitness, and wellness videos, creating a leading streaming video provider. As for our direct response television marketing business, we plan to launch a new infomercial product for our Firm brand during the first quarter of 2014.

Table of Contents**Results of Operations**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 45.7% | 44.0% | 45.1% | 41.7% |
| Gross profit | 54.3% | 56.0% | 54.9% | 58.3% |
| Expenses: | | | | |
| Selling and operating | 50.9% | 50.7% | 51.6% | 53.6% |
| Corporate, general and administration | 5.9% | 5.7% | 6.6% | 6.0% |
| Acquisition-related costs | % | % | % | 1.2% |
| Total expenses | 56.8% | 56.4% | 58.2% | 60.8% |
| Loss from operations | (2.5)% | (0.4)% | (3.3)% | (2.5)% |
| Interest and other expense, net | (0.2)% | (0.5)% | (0.3)% | (0.2)% |
| Gain on sale of investment | 3.7% | % | 12.0% | % |
| Loss from equity method investment in RSOL | % | (37.1)% | % | (12.9)% |
| Income tax expense (benefit) | 0.4% | (12.5)% | 3.2% | (5.1)% |
| Net income attributable to noncontrolling interest | (0.4)% | (0.5)% | (0.2)% | (0.1)% |
| Net income (loss) attributable to Gaiam, Inc. | 0.2% | (26.0)% | 5.0% | (10.6)% |

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Net revenue. Net revenue increased \$9.8 million, or 22.8%, to \$52.8 million during the third quarter of 2013 from \$43.0 million during the third quarter of 2012. Excluding GVE, net revenue increased \$6.0 million, or 17.7%, during the third quarter of 2013. Net revenue in our business segment increased \$8.8 million, or 32.4%, to \$35.8 million during the third quarter of 2013 from \$27.1 million during the third quarter of 2012, due to better sales performance at our top 25 retailers. Excluding GVE, net revenue in our business segment increased \$5.0 million, or 27.3%, during the third quarter of 2013. Net revenue in our direct to consumer segment increased \$1.1 million, or 6.7%, to \$17.0 million during the third quarter of 2013 from \$15.9 million during the third quarter of 2012. Excluding DRTV, net revenue in our direct to consumer segment increased \$2.4 million or 22.7%.

Cost of goods sold. Cost of goods sold increased \$5.2 million to \$24.1 million during the third quarter of 2013 from \$18.9 million during the third quarter of 2012. Cost of goods sold in our business segment increased \$3.8 million to \$15.7 million during the third quarter of 2013 from \$11.9 million during the third quarter of 2012 and, as a percentage of net revenue, remained consistent at 43.8% during the third quarters of 2013 and 2012. Cost of goods sold in our direct to consumer segment increased \$1.4 million to \$8.5 million during the third quarter of 2013 from \$7.1 million during the third quarter of 2012 and, as a percentage of net revenue, increased to 50.0% during the third quarter of 2013 from 44.4% during the third quarter of 2012, primarily reflecting the decrease in sales for our direct response television marketing business, which carry lower associated cost of goods sold.

Selling and operating expenses. Selling and operating expenses increased \$5.1 million, or 23.4%, to \$26.9 million during the third quarter of 2013 from \$21.8 million during the third quarter of 2012 and, as a percentage of net revenue, slightly increased to 50.9% during the third quarter of 2013 from 50.7% during the third quarter of 2012, primarily due to investments in our digital subscription businesses.

Corporate, general and administration expenses. Corporate, general and administration expenses increased \$0.6 million, or 25.4%, to \$3.1 million during the third quarter of 2013 from \$2.5 million during the third quarter of 2012 and, as a percentage of net revenue, increased to 5.9% during the third quarter of 2013 from 5.7% during the third quarter of 2012, primarily due to transactional costs related to our sale of GVE.

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Interest and other expense, net. Interest and other expense decreased \$0.1 million, or 35.9%, to \$0.1 million during the third quarter of 2013 from \$0.2 million during the third quarter of 2012, primarily due to interest received from Real Goods Solar during 2013.

Gain on sale of investment. Gain on sale of investment of \$2.0 million during the third quarter of 2013 represents our gain recognized and net proceeds received from the sale of one million shares of our investment in Real Goods Solar's Class A common stock. We will use a portion of our carried forward tax net operating losses to offset the resulting tax gain.

Table of Contents

Loss from equity method investment. Loss from equity method investment was zero during the third quarter of 2013 and \$15.9 million during the third quarter of 2012 and represented our portion of Real Goods Solar's net loss for that quarter of 2012. Since we no longer have significant influence over Real Goods Solar and accordingly have changed the accounting for our investment in Real Goods Solar from the equity to the cost method, we no longer recognize our portion of Real Goods Solar's net loss in our current year period financial results.

Net income (loss) attributable to Gaiam, Inc. As a result of the above factors, net income attributable to Gaiam, Inc. was \$0.1 million, or \$0.01 per share, during the third quarter of 2013 compared to a loss of \$11.2 million, or \$0.49 per share, during the third quarter of 2012.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Net revenue. Net revenue increased \$18.2 million, or 13.4%, to \$154.0 million during the nine months ended September 30, 2013 from \$135.8 million during the nine months ended September 30, 2012, with organic net revenue growth of \$11.9 million or 8.8%. Excluding GVE, net revenue increased \$12.9 million, or 12.0%, during the nine months ended September 30, 2013. Net revenue in our business segment increased \$21.0 million, or 25.8%, to \$102.4 million during the nine months ended September 30, 2013 from \$81.4 million during the nine months ended September 30, 2012, due to better sales performance at our top 25 retailers and the acquisition of Vivendi in 2012. Excluding GVE, net revenue for our business segment increased \$15.7 million, or 29.5%, during the nine months ended September 30, 2013. Net revenue in our direct to consumer segment decreased \$2.8 million, or 5.2%, to \$51.6 million during the nine months ended September 30, 2013 from \$54.4 million during the nine months ended September 30, 2012 due primarily to decreased sales in our direct response television marketing business. Excluding DRTV, net revenue in our direct to consumer segment increased \$7.0 million or 24.1%.

Cost of goods sold. Cost of goods sold increased \$12.9 million to \$69.5 million during the nine months ended September 30, 2013 from \$56.6 million during the nine months ended September 30, 2012. Cost of goods sold in our business segment increased \$9.3 million to \$46.1 million during the nine months ended September 30, 2013 from \$36.8 million during the nine months ended September 30, 2012 and, as a percentage of net revenue, decreased slightly to 45.0% during the nine months ended September 30, 2013 from 45.2% during the nine months ended September 30, 2012, primarily due to a shift in product sales mix. Cost of goods sold in our direct to consumer segment increased \$3.6 million to \$23.4 million during the nine months ended September 30, 2013 from \$19.8 million during the nine months ended September 30, 2012 and, as a percentage of net revenue, increased to 45.3% during the nine months ended September 30, 2013 from 36.4% during the nine months ended September 30, 2012, primarily reflecting the decrease in sales for our direct response television marketing business, which carry lower associated cost of goods sold.

Selling and operating expenses. Selling and operating expenses increased \$6.6 million, or 9.0%, to \$79.4 million during the nine months ended September 30, 2013 from \$72.8 million during the nine months ended September 30, 2012 and, as a percentage of net revenue, decreased to 51.6% during the nine months ended September 30, 2013 from 53.6% during the nine months ended September 30, 2012, primarily due to additional investments in our digital subscription businesses.

Corporate, general and administration expenses. Corporate, general and administration expenses increased \$2.0 million, or 24.9%, to \$10.2 million during the nine months ended September 30, 2013 from \$8.1 million during the nine months ended September 30, 2012 and, as a percentage of net revenue, increased to 6.6% during the nine months ended September 30, 2013 from 6.0% during the nine months ended September 30, 2012, primarily as a result of our investment in brand positioning and research for channel expansion of the Gaiam brand and transactional costs related to our sale of GVE.

Acquisition-related costs. Acquisition-related costs were zero during the nine months ended September 30, 2013 and \$1.7 million during the nine months ended September 30, 2012 and were the result of our acquisition of Vivendi.

Interest and other expense, net. Interest and other expense, net increased to \$0.4 million during the nine months ended September 30, 2013 from \$0.3 million during the nine months ended September 30, 2012 as a result of borrowings on our line of credit, partially offset by \$0.1 million of interest received from Real Goods Solar during 2013.

Gain on sale of investment. Gain on sale of investment of \$18.4 million during the nine months ended September 30, 2013 represents our gain recognized and net proceeds received from the sale of approximately 7 million shares of our investment in Real Goods Solar's Class A common stock. We will use a portion of our carried forward tax net operating losses to offset the resulting tax gain.

Loss from equity method investment. Loss from equity method investment was zero during the nine months ended September 30, 2013 and \$17.6 million during the nine months ended September 30, 2012 and represented our portion of Real Goods Solar's net loss for that period of 2012. Since we no longer have significant influence over Real Goods Solar and accordingly have changed the accounting for our investment in Real Goods Solar from the equity to the cost method, we no longer recognize our portion of Real Goods Solar's net loss in our current year period

financial results.

Table of Contents

Income tax expense (benefit). Income tax expense during the nine months ended September 30, 2013 was increased by the repatriation of cash from one of our foreign subsidiaries and other permanent differences. Income tax benefit during the nine months ended September 30, 2012 was increased primarily due to the reducing of a deferred tax liability related to the carrying value of our equity method investment in Real Goods Solar.

Net income (loss) attributable to Gaiam, Inc. As a result of the above factors, net income attributable to Gaiam, Inc. was \$7.7 million, or \$0.34 per share, during the nine months ended September 30, 2013 compared to a loss of \$14.4 million, or \$0.64 per share, during the nine months ended September 30, 2012.

Seasonality

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

Liquidity and Capital Resources

Our capital needs arise from working capital required to fund operations, capital expenditures related to acquisition and development of media content, development and marketing of our e-commerce and digital platforms and new products, acquisitions of new businesses, replacements, expansions and improvements to our infrastructure, and future growth. These capital requirements depend on numerous factors, including the rate of market acceptance of our product offerings, our ability to expand our customer base, the cost of ongoing upgrades to our product offerings, the level of expenditures for sales and marketing, the level of investment in distribution systems and facilities and other factors. The timing and amount of these capital requirements are variable and we cannot accurately predict them. Additionally, we will continue to pursue opportunities to expand our media libraries, evaluate possible investments in businesses, products and technologies, and increase our sales and marketing programs and brand promotions as needed. Including our investment in Gaiam TV, we estimate that our capital expenditures will total approximately \$3.5 million for 2013.

On October 21, 2013, we consummated the sale of GVE, a wholly-owned subsidiary comprised of our non-Gaiam branded entertainment media business, to CIDM for \$51.5 million, comprised of \$47.5 million in cash, 666,978 shares of CIDM's Class A common stock valued at approximately \$1 million, \$2 million of assigned accounts receivable, and a \$1 million assumed payment obligation. The sale consideration also includes a post-closing adjustment payable in cash on April 15, 2014, which is based on the final closing net working capital of GVE.

Also on October 21, 2013, the Borrowers paid in full the outstanding balance owed to PNC, \$19,621,941 (inclusive of principal and interest and other fees), and terminated the underlying PNC Revolving Credit Agreement, dated July 31, 2012, between the Borrowers and PNC. The PNC Credit Agreement permitted borrowings of up to \$35 million based upon the collateral value of Borrower's eligible receivables and inventory less certain other amounts and reserves. The Borrowers also paid an early termination fee in an amount equal to \$350,000. The PNC Credit Agreement would have expired on July 30, 2015. Upon termination, PNC released all liens granted in its favor on the collateral pledged under the PNC Credit Agreement.

Cash Flows

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

| (in thousands) | Nine Months Ended September 30, | |
|-----------------------------------|------------------------------------|-----------|
| | 2013 | 2012 |
| Net cash provided by (used in): | | |
| Operating activities (a) | \$ (13,177) | \$ 19,400 |
| Investing activities | 15,232 | (16,591) |
| Financing activities | (783) | 1,639 |
| Effects of exchange rates on cash | (261) | 64 |
| Net change in cash | \$ 1,011 | \$ 4,512 |

- (a) Net cash provided by operating activities for the nine months ended September 30, 2012 includes approximately \$18.7 million of net cash provided by purchased Vivendi working capital, which was used to partially fund the acquisition of Vivendi. Excluding the net cash flows from the purchased Vivendi working capital, net cash provided by operating activities would have been \$0.7 million for the nine months ended September 30, 2012. Additionally, the net cash used provided by operations for the nine months ended September 30, 2012 does not include participations payments for Vivendi sales during the fourth quarter of 2011 as we didn't acquire Vivendi until March 28, 2012. The fourth quarter is our seasonably largest sales quarter and participations payable resulting from such sales are normally not paid until the following quarter. Also, net cash used in

Table of Contents

operations for the nine months ended September 30, 2013 includes certain participation payments that were due in December 2012, but not paid until January 2013.

Operating activities. Our operating activities used net cash of \$13.2 million and provided net cash of \$19.4 million during the nine months ended September 30, 2013 and 2012, respectively. Excluding the net cash flows from the purchased Vivendi working capital, net cash provided by operating activities would have been \$0.7 million for the nine months ended September 30, 2012. The net cash used by operating activities during the nine months ended September 30, 2013 was primarily attributable to decreased participations payable of \$14.2 million, noncash adjustments of \$7.6 million, and increased advances, inventory, deferred advertising costs, and other current assets of \$4.5 million, \$3.9 million, \$1.1 million, and \$0.4 million, respectively, partially offset by decreased accounts receivable of \$8.6 million, net income of \$8.1 million, and increased accounts payable of \$1.9 million. The net cash provided by operating activities during the nine months ended September 30, 2012 was primarily attributable to decreased accounts receivables of \$22.0 million, increased accounts payable and participations payable of \$12.2 million and our net loss plus noncash adjustments thereto of \$3.1 million, partially offset by increased inventory, advances, deferred advertising costs, and other current assets of \$10.2 million, \$6.3 million, \$1.0 million, and \$0.7 million, respectively. Approximately \$18.7 million of the net cash provided by operating activities during the nine months ended September 30, 2012 was generated from purchased Vivendi working capital, which was used to partially fund the acquisition of Vivendi.

Investing activities. Our investing activities provided net cash of \$15.2 million and used net cash of \$16.6 million during the nine months ended September 30, 2013 and 2012, respectively. The net cash provided by investing activities during the nine months ended September 30, 2013 was primarily from the \$18.4 million net proceeds from the sale of 7,017,500 shares of our investment in Real Goods Solar Class A common stock, partially offset by cash used to acquire property and equipment to maintain normal operations for \$1.7 million and media content for \$1.2 million, and by our travel subsidiary to purchase partial ownerships of businesses for \$0.3 million, net of cash acquired. The net cash used in investing activities during the nine months ended September 30, 2012 was used primarily for the \$13.4 million cash portion of the purchase price for Vivendi, to acquire property and equipment to maintain normal operations for \$2.1 million and media content for \$1.0 million, and our travel subsidiary's purchase of the noncontrolling interest of one of its businesses for \$0.2 million.

Financing activities. Our financing activities used net cash of \$0.8 million and provided net cash of \$1.6 million during the nine months ended September 30, 2013 and 2012, respectively. The net cash used in financing activities during the nine months ended September 30, 2013 was primarily for the repayment of borrowings on our line of credit for \$0.8 million. The net cash provided by financing activities during the nine months ended September 30, 2012 was primarily generated by net borrowings on our revolving line of credit of \$20.9 million, the funds from which were mainly used towards the acquisition of Vivendi and its related expenses, partially offset by the repayment of a promissory note for \$18.7 million in connection with the acquisition of Vivendi and our travel subsidiary's dividend payment to the noncontrolling interest of \$0.6 million.

We currently have a shelf registration with the Securities and Exchange Commission for 5,000,000 shares of our Class A common stock and to date no shares have been issued under this shelf registration.

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 additional indebtedness.

While there can be no assurances, we believe our cash on hand, cash expected to be generated from future operations, cash that could be raised by the sale of our shelf registration stock, remaining investment in Real Goods Solar, and/or new credit facilities, and available carried forward tax net operating losses should be sufficient to fund our operations on both a short-term and long-term basis. However, our projected cash needs may change as a result of acquisitions, product development, unforeseen operational difficulties or other factors.

Table of Contents**Contractual Obligations**

We have significant commitments pursuant to operating lease agreements. The following table shows our commitments to make future payments under these agreements as of September 30, 2013. Since the sale of GVE on October 21, 2013, we no longer have significant commitments to make future payments or advances under media distribution agreements.

| (in thousands) | Total | < 1 year | 1-3 years | 3-5 years | > 5 years |
|--------------------------|----------|----------|-----------|-----------|-----------|
| Operating lease payments | \$ 1,980 | \$ 1,211 | \$ 769 | \$ | \$ |

Risks and Uncertainties

We wish to caution you that there are risks and uncertainties that could cause our actual results to be materially different from those indicated by forward looking statements that we make from time to time in filings with the Securities and Exchange Commission, news releases, reports, proxy statements, registration statements and other written communications as well as oral forward looking statements made from time to time by our representatives. These risks and uncertainties include those risks listed in our Annual Report on Form 10-K for the year ended December 31, 2012. Historical results are not necessarily an indication of the future results. Except for the historical information contained herein, the matters discussed in this analysis are forward-looking statements that involve risk and uncertainties, including, but not limited to, general economic and business conditions, competition, pricing, brand reputation, consumer trends, and other factors which are often beyond our control. We do not undertake any obligation to update forward-looking statements except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which include changes in U.S. interest rates and foreign exchange rates. We do not engage in financial transactions for trading or speculative purposes, but do have on occasion forward contracts for foreign currency transactions, the gains and losses from which have been immaterial. In 2010, we acquired controlling financial interest in and, therefore, consolidated Gaiam PTY, an Australian based joint venture. Since Gaiam PTY's functional currency is the Australian dollar, this subsidiary exposes us to risk associated with foreign currency exchange rate fluctuations. However, we have determined that no material market risk exposure to our consolidated financial position, results from operations or cash flows existed as of September 30, 2013.

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

Item 4. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

Our 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, as amended. Based upon their evaluation as of September 30, 2013, our management has concluded that those disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION**Item 1. Legal Proceedings**

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

Item 1A. Risk Factors

No material changes.

Table of Contents

Item 6. Exhibits

a) 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

Table of Contents

SIGNATURES

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

November 12, 2013
Date

Gaiam, Inc.
(Registrant)

By: /s/ Lynn Powers
Lynn Powers
Chief Executive Officer

(principal executive officer)

November 12, 2013
Date

By: /s/ Stephen J. Thomas
Stephen J. Thomas
Chief Financial Officer
(principal financial and accounting officer)

Table of Contents

EXHIBIT INDEX

| Exhibit No. | Description |
|------------------------|--|
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** Furnished herewith