

GAIAM, INC  
Form 10-K  
March 31, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from            to

Commission File Number 000-27517

**GAIAM, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: GAIAM, INC - Form 10-K

**COLORADO**  
(State or other jurisdiction of  
incorporation or organization)

**84-1113527**  
(I.R.S. Employer  
Identification No.)

**833 WEST SOUTH BOULDER ROAD**

**LOUISVILLE, CO 80027**

(Address of principal executive offices, including zip code)

**(303) 222-3600**

(Registrant's telephone number, including area code)

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
<b>Class A Common Stock, \$.0001 par value</b>	<b>NASDAQ Stock Market LLC</b>

**Securities registered pursuant to section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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

Indicate by check mark whether the registrant has submitted electronically 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

## Edgar Filing: GAIAM, INC - Form 10-K

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 Act.) YES  NO

The aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately \$70,643,220 as of June 30, 2013, based upon the closing price on the NASDAQ Global Market on that date. The registrant does not have non-voting common equity.

As of March 5, 2014, 18,602,803 shares of the registrant's Class A common stock and 5,400,000 shares of the registrant's Class B common stock were outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents (or portions thereof) are incorporated by reference into the Parts of this Form 10-K noted:

Part III incorporates by reference from the definitive proxy statement for the registrant's 2014 Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form.

**Table of Contents**

**GAIAM, INC.**

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2013

INDEX

	<b>Page Number</b>
<b><u>PART I</u></b>	3
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	9
Item 1B. <u>Unresolved Staff Comments</u>	13
Item 2. <u>Properties</u>	14
Item 3. <u>Legal Proceedings</u>	14
Item 4. <u>Mine Safety Disclosures</u>	14
<b><u>PART II</u></b>	14
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	14
Item 6. <u>Selected Financial Data</u>	16
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 8. <u>Financial Statements and Supplementary Data</u>	30
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	57
Item 9A. <u>Controls and Procedures</u>	57
Item 9B. <u>Other Information</u>	57
<b><u>PART III</u></b>	58
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	58
Item 11. <u>Executive Compensation</u>	60
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	68
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	70
Item 14. <u>Principal Accounting Fees and Services</u>	70
<b><u>PART IV</u></b>	71
Item 15. <u>Exhibits and Financial Statement Schedules</u>	71
<b><u>SIGNATURES</u></b>	74

---

## **Table of Contents**

### **PART I**

#### **Item 1. Business** **Our Business**

We are a leader in the design, creation, and marketing of products and media for consumers who are interested in yoga, fitness, and wellbeing. Additionally, we operate a subscription video on-demand service, Gaiam TV, which is dedicated to creating, acquiring, and delivering conscious media. Through our business activities, we seek to position our brand as a trusted source for information and products that are relevant to our consumers' active lifestyles and transformational journeys. Our broad distribution network includes retail, online, and digital channels. At the end of 2013, our brands were carried by over 38,000 retail stores worldwide. Our business is vertically integrated from product design and content creation through product development and sourcing, to customer service and distribution. This efficient supply chain enables us to provide quality products at competitive prices for all of our channels.

We intend to build upon our authenticity and heritage in the yoga, fitness, wellbeing, and conscious media sectors. We believe that the size of our end markets is growing as a result of growth in yoga participation, greater awareness of health and wellness, and the success of our retail and online partners. We intend to leverage our product development, supply chain, and retail relationships to continue to expand and innovate our brand's offerings enabling us to capitalize on the growth in our end markets.

#### **Discontinued Operations**

In the fourth quarter of 2013, we sold our non-branded entertainment media distribution operations ( GVE ) and discontinued our direct response television marketing operations ( DRTV ). We now report these businesses as discontinued operations, and, accordingly, we have reclassified their financial results for all periods presented to reflect them as such. Unless otherwise noted, discussions in this Form 10-K pertain to our continuing operations.

#### **Our Products**

Our products are marketed primarily under the brands Gaiam and SPRI. Gaiam's products include yoga mats, blocks, and other yoga accessories, restorative products such as foam rollers and massage sticks, balance balls and rubber resistance products. Our professional brand, SPRI, encompasses a full line of fitness accessories including our newest line SPRI Cross Train that targets the rapidly growing high-intensity training market. These products are marketed through both our direct and business segments. We also own or license other brands that are utilized on a smaller scale within our business segment to provide retailers with additional choices of brands and price points. Although we remain focused on our brands, offering multiple brands enables us to capture incremental market share within our existing customers and to build strong single-vendor relationships with retailers seeking greater operational efficiencies. We believe that our expertise and product offerings make us a valued partner to retailers. In addition, through market and consumer research, we have learned that our brands still have significant expansion opportunity into adjacent categories such as apparel.

#### **Our Media Content**

Our media business model revolves around content production and acquisition. We have an in-house production studio and team which produces programming that has earned 134 Telly awards and several medals at the International New York Film Festival. We own a media production studio and authoring and editing facilities that enable us to create our own high-definition content on-site at low incremental cost. We utilize this facility to create yoga, fitness, and wellbeing content as well as a large slate of original programming for Gaiam TV. In addition to creating content, we also license rights to content primarily for use on Gaiam TV. At the end of 2013, we owned or licensed over 6,000 titles. Our content management systems allow us to deliver content to nearly any internet connected device, giving us access to growing audiences anytime, anywhere. We own all rights to the majority of our titles allowing us to continue to expand our reach as content moves into the digital age.

Gaiam TV creates and digitally delivers an extensive library of acquired, licensed, and self-produced conscious media titles on demand. Gaiam TV is a global business with subscribers in over 100 countries. Over 90% of its titles are available for streaming exclusively on our platform, and over two thirds of streaming activity is generated by content we have produced in-house.

#### **Our Sales and Marketing Segments**

## Edgar Filing: GAIAM, INC - Form 10-K

We conduct our business across two segments. Our business segment customers are primarily national retailers, corporate accounts and digital media marketers. We conduct our direct to consumer business through our digital streaming, e-commerce, and catalog channels.

---

## **Table of Contents**

### ***Business Segment***

Our business segment encompasses both wholesale trade relationships as well digital content sales through third parties.

Since the inception of our retailer channel in 1998, we have increased our breadth and diversity. As of the end of 2013, our fitness accessories and media titles could be found in over 38,000 stores worldwide. We currently sell our proprietary media and other products across a variety of leading retailers, including mass merchants such as: Target, our largest customer, and Walmart; e-tailers such as Amazon.com and Drugstore.com; wholesale clubs such as Costco and Sam's Club; media stores such as Best Buy; home furnishing stores such as Bed, Bath and Beyond; natural food stores such as Whole Foods Market; sporting goods stores such as Sports Authority and Dick's Sporting Goods; and bookstores such as Barnes & Noble. Many of these retailers display our products in branded store-within-store lifestyle presentations that may include custom fixtures that we design. We implemented our first store-within-store concept late in 2000 and the concept had grown to approximately 14,500 stores by the end of 2013. Our branded products and yoga, fitness, and wellbeing media titles are distributed by our licensee in Canada, by our subsidiary Gaiam PTY in Australia, and directly by us, through a third-party logistics provider, in the United Kingdom.

We also distribute our digital media content over the Internet and on mobile devices, such as iPads and other tablets. Our media partners include Google, YouTube, Amazon, Vudu, and iTunes. All of our licensing arrangements require our branding to be prominent on the programming and are subject to royalty agreements with our performing artists. While licensing the rights to manufacture and distribute some of our media lowers recognized revenue, it also offers greater contribution margins.

We intend to continue seeking new licensees for our brands internationally as well as additional digital distribution partners.

### ***Direct to Consumer Segment***

We use e-commerce to sell our products and to provide information on LOHAS (lifestyles of health and sustainability). We promote our website through our visual media, catalogs, print publications, product packaging and Internet links. We provide customer support for e-commerce sales from our in-house call center, which is a key benefit for our e-commerce customers. Having an e-commerce presence and loyal customers is a competitive advantage as media continues to move more to digital download, streaming and subscription services. We offer a variety of LOHAS products directly to the consumer through our catalogs and through some consumer lifestyle publications. Our customer demographics are attractive as our customers have a median income of about \$80,000 and most are college educated.

Gaiam TV is a global digital video streaming service with over 6,000 conscious media titles and subscribers in over 100 countries. Over 90% of its titles are available for streaming exclusively for Gaiam TV through almost any internet connected device.

## **Our Operations**

### ***Sales Channels, Product Development and Sourcing***

We sell our branded products across various sales channels. Non-proprietary products are only available through our e-commerce and catalog channels. We use our e-commerce and catalog channels to test products before we develop them under our brand and distribute them through our other sales channels. Because we use a multi-channel approach to our business, we are able to leverage our media and product development costs across all channels of our business.

Our proprietary offerings are designed by our development team and sourced both domestically and internationally by our merchandisers through third party suppliers that produce these products to our specifications. We design our products to supply information, enhance customers lifestyles and experiences, and provide healthy, natural solutions while being eco-friendly and promoting a sustainable economy. We also screen the environmental and social responsibility of our suppliers. In order to minimize risk, we often identify an alternate supplier for our products in a separate location.

### ***Customer Service***

We focus on building and maintaining customer relationships that thrive on loyalty and trust. We maintain a no-risk guarantee policy, whereby we provide a customer a full refund for our products that are returned at any time, for any reason. We have established a most valued customer program, which extends added benefits to our most loyal e-commerce and catalog customers. Our in-house customer service department includes product specialists who have specific product knowledge and assist customers in selecting products and solutions that meet their needs. We employ telephone routing software that directs each call to the appropriate representative. Our policy is to ship orders no later than the next

## Edgar Filing: GAIAM, INC - Form 10-K

business day. We believe that by offering exceptional customer service we encourage repeat purchases by our customers, enhance our brand identity and reputation, and build stronger relationships with our customers.



---

## **Table of Contents**

### ***Established Infrastructure***

We have a distribution center centrally located near Cincinnati, Ohio. This distribution center provides fulfillment for much of our current domestic business needs and has the capacity to support the growth of our business. The center's central U.S. location allows us to achieve shipping cost efficiencies to most locations. The center is also located within 30 minutes of several major shipping company hubs. We use a supply chain management system that supports our entire operation, including fulfillment, inventory management, and customer service. Our fulfillment center is connected to our other facilities by a state-of-the-art voice-over-Internet telecom network that allows us to maintain a high degree of connectivity within our organization.

### **Our Growth Strategies**

#### ***Streamline and Focus Our Business***

Having sold our non-branded entertainment media distribution operations in October 2013 and having discontinued our direct response television marketing operations, we are restructuring our business around our core yoga, fitness, and wellbeing operations as well as Gaiam TV. We expect that by divesting of non-core assets, we can deliver operational synergies from streamlining our organization and dedicating management oversight to each of the two core operating business segments. Gaiam TV continues to grow and we have built a highly skilled team that manages the Gaiam TV operations.

#### ***Expand our Media Content Offering***

Proprietary and authentic content lies at the core of our business model. In the yoga, fitness, and wellbeing market, our media offerings help establish us as an authority and have given us the leading market share in the fitness media market according to Nielsen VideoScan. Our primary focus is on leveraging our content and branded lifestyle offerings through various channels, including traditional and digital media, catalogs, the Internet, and national retailers. We believe that within the market, our deep content library combines with our product offerings to provide lifestyle solutions to our consumers. Although the physical media market is in decline, our strong retail relationships, content creation capabilities, physical products, and digital distribution activities will enable us to maintain our leading market share in fitness media. Media consumption has shifted dramatically in recent years, and has led us to focus more on short-form content development, particularly in the yoga, fitness, and wellbeing market. This content is more readily adapted to digital distribution channels. In addition, short-form content can be complementary to our yoga and fitness accessories, and helps us deliver to our consumers a complete solution to their needs.

We will continue to develop authentic content that caters to the conscious media lifestyle and distribute it primarily in digital formats, and also to accelerate our efforts in the international and online categories. During 2013, we acquired My Yoga Online, the largest on-line yoga video streaming subscription business in Canada with a content library of over 1,000 video titles and an active on-line, international community.

We have expanded our visual media offerings internationally and plan to continue to grow this opportunity. We have also broadened the variety of formats we offer by making our content available online to our consumers in transactional purchase and subscription services.

#### ***Digital Delivery of Media Products***

In order to capitalize on the shift from DVD to digital distribution, we have digitized our entire media library. We sell our media through digital distribution partners, such as Amazon, YouTube, Vudu, iTunes, and other major digital providers. Gaiam TV subscribers are able to browse and stream extensive conscious media content, as well as create customized yoga and fitness playlists based on level of expertise, instructors, interests or desired time commitment. The platform accommodates multiple consumer access points through virtually all Internet-connected devices.

We have invested in our in-house studios, digital asset management system and digital delivery platforms, to allow us to produce and distribute digital content at low incremental costs. To date, we made available over 6,000 titles that consumers may download through digital retailers or stream via Gaiam TV. We intend to use all of our current sales platforms to direct customers to our comprehensive digital offerings and clubs.

---

## **Table of Contents**

### ***Strengthen our Lifestyle Brand***

Our goal is to maintain our brand as an authority in the LOHAS market, and focus on our core heritage in yoga, fitness, and wellness and conscious media. We plan to strengthen our brand by continuing to develop new and innovative products, growing our media, making our brand more prominent across our direct to consumer efforts, focusing on category management initiatives, increasing our store-within-store presence across national retailers, increasing our marketing and public relations efforts, and maintaining our high level of customer service.

### ***Expand our Proprietary Products***

Excluding our partially owned subsidiaries, our proprietary products, which we introduced in 1997, represented approximately 93% of our revenues in 2013. These products carry a higher margin, provide for branding opportunities, and distinguish us from our competitors. We currently support the LOHAS lifestyle with proprietary products in yoga and fitness, health and wellness, and conscious media. We have also expanded our media library to over 6,000 titles through acquisitions and internal development. We will continue to develop and market proprietary products across the LOHAS sectors. Today, our brands Gaiam and SPRI represent the majority of our proprietary offerings, and we will continue to seek opportunities to innovate within our existing brand portfolio as well as to extend these brands into adjacent markets. Our recent launch of SPRI CrossTrain fitness equipment targeted at the high-intensity exercise market represents the kind of innovation we seek to deliver through our existing channels. We are currently preparing to extend our brand into the active apparel market. We will also continue to look for additional library or business acquisitions as we expand our content across the conscious media market. We are strengthening our supply chain globally by sourcing a greater number of products offshore and leveraging our expanding media sales to obtain lower costs from our replicators. We leverage our product development costs over all sales channels.

### ***Capitalize on our Market Share Positioning***

According to Nielsen's Videoscan, since 2004 we more than doubled our U.S. DVD market share in the fitness/wellness category to approximately 39% in 2013. At the end of 2013, we were ranked 1st in the U.S. in the fitness DVD category. We have secured a yoga and fitness category management role and effectively control such offerings at some of the largest retailers in the nation. We are now expanding this category management concept to other specialty channels. Assuming this category management role improved our revenues and profits and expanded our exposure in the yoga and fitness category. This category management program is currently in over 5,500 retail doors.

### ***Capitalize on our Multi-channel Approach***

Our multi-channel strategy affords us the broadest possible customer reach, as well as allowing our customers to buy from us what they want, when they want, where they want. This approach makes purchasing our LOHAS products convenient regardless of the channel that a customer prefers. It also allows us to exploit segments of our customer base across channels to develop deeper, longer-lasting relationships with them, and to convert them from purchasers of individual media products into subscribers to our online content on a recurring basis. Additionally, this diversified, strategic approach should provide for continued operational and business stability as we have the ability to cross-market lifestyle products and services regardless of the customer location or the channel to which we are marketing.

In our direct to consumer segment, we are open 24 hours a day, offering products on our Internet sites. Our direct businesses (e-commerce, catalog, and subscription) are better positioned to grow as a result of platform updates that promote more solutions-based (versus transaction-based) interactions, which deliver more engaging shopping experiences for our customers. As we increase the depth of media and functionality available to our consumers, our Internet presence will transform from being merely a place to order product to a place to consume it in real-time as digital downloads become more mainstream. This will allow our customers to both stream or download content, as well as buy products focused on these solution-based areas: yoga and fitness; health and wellness; personal development, inspiration and mediation, and meaningful documentaries.

In our business segment, we continue to expand our presence in national retailers and currently have placements in over 38,000 retail doors worldwide. We also continue to expand our store-within-store concept in a variety of stores, including Target, Sports Authority, Dick's Sporting Goods, Whole Foods Market, Best Buy, REI, Barnes & Noble Bookstores, and other national retailers. We currently have over 14,500 stores within stores concepts. As digital has become more main stream, our strong relationships with retailers have allowed us to migrate our media and products to retailers' Internet sales channels.

### ***Improve our Profit Margins***

We believe we can improve our profit margins with several distinct strategies. First, we will seek to focus and streamline our business having recently divested our entertainment media distribution operations and discontinued our DRTV operations. This process will include finding

## Edgar Filing: GAIAM, INC - Form 10-K

additional supply chain efficiencies as well as leveraging our growing scale in the yoga, fitness, and wellbeing marketplace. We will also continue to focus our sales strategy on media that carries high gross margins. We continue to establish ourselves as the brand in the yoga, fitness, and wellbeing markets, as well as in the conscious media market.

---

## **Table of Contents**

We entered the subscription market in 2007 and have since expanded our presence with the launch of Gaiam TV. The subscription business carries over 85% gross margin and connects our media content directly to the consumer. We expect to continue to invest in this channel. We believe that with the widespread adoption of broadband Internet connectivity in the consumer marketplace, coupled with our specialized media library and loyal direct customer base, we have an opportunity for strong growth at high margins as digital downloads of media become more mainstream.

With our state-of-the-art, in-house studios and post production facilities, we will continue to focus on producing lower cost yoga and fitness media, LOHAS content, and web downloads. In addition, we have, and will continue to optimize and focus our catalog circulation towards more fitness and apparel.

### ***Complement our Existing Business with Selective Strategic Acquisitions***

Our growth strategy is not dependent on acquisitions. However, we will consider strategic acquisitions that complement our existing business, increase our media and related product offerings, expand our geographical reach, extend our channel distribution, and/or add to our direct customer base. We especially focus on companies with media content, brand identity, and consumer bases that augment our existing operations. We often allow some of the acquired company's management team to retain responsibility for front-end business functions, such as creative presentation and marketing, while consolidating operational functions under our existing infrastructure when we can realize economies of scale.

### **Our Reporting Segments**

We have two reportable segments: the business segment, which includes sales to businesses, retailers, international licenses, corporate accounts and media outlets; and the direct to consumer segment, which includes e-commerce, catalogs, and digital subscription services.

During 2013, the business and direct to consumer segments represented 66.5% and 33.5% of our net revenues, respectively. Our business segment is dependent upon a few major customers for a significant portion of its revenues. See Note 11 to our consolidated financial statements for further information on our segments.

### **Our Intellectual Property**

Our trade name, Gaiam, and various product and Internet domain names are subject to trademark or pending trademark applications of Gaiam or a Gaiam company. We believe these trademarks are significant assets to our business.

### **Our Competition**

We believe that fragmented supplier and distribution networks continue to characterize the LOHAS market, and we are not aware of a dominant leader. According to Nielson's VideoScan, we continue to be the leader in fitness/wellness media with a 39% market share. We believe the principal competitive factors in the LOHAS market are brand authenticity and recognition, unique content and distinctiveness of products and services, quality of product, price, and distribution capabilities. We believe we compete favorably on all these relevant factors. Because we use multi-channel distribution for our products, we compete with various producers of similar products and services. Our competitors in the accessories market are Icon Health and Fitness, GoFit, Sklz, Manduka, JadeYoga, and numerous other small, local and regional businesses, and product lines or items offered by large retailers. In the media market, our principal competitors include Anchor Bay Entertainment, Lions Gate Entertainment, and many smaller media producers.

### **Our Competitive Advantage**

We believe we have a number of advantages over our competitors, including the following:

***Brand Recognition and Authenticity.*** Our brand is readily recognized as a leader in our industry. We continue to develop authentic products and content for the LOHAS market, particularly in the categories of fitness/wellness and conscious media. With over 15 years in the yoga and well being market, our reputation and longevity in the LOHAS marketplace makes us the first choice for many consumers.

## Edgar Filing: GAIAM, INC - Form 10-K

***Unique Vertical Media Content Business Model.*** We believe we have a competitive advantage with our unique media content business model, which is vertically integrated from content production through digital distribution. With our in-house studios, post production facility, and digital asset management distribution system, we can produce new content at a very low incremental cost.

***Multi-channel Distribution Capabilities.*** Our products are accessible by our customers when, where and how ever they want them. Customers may purchase and receive our products from retail stores, the Internet, catalogs, web subscriptions, or digital streaming. Our retail distribution currently reaches over 38,000 retail doors worldwide. In retailer locations, we are pairing our media content with our other product offerings to create a unique display and merchandising opportunity for our brand, which we call a store-within-store. We currently have over 14,500 of these displays across the country, allowing the consumer to find a Gaiam home where they shop.

---

## **Table of Contents**

**Market Share.** We maintain a leading market share in yoga and fitness media at retail, which reflects the popularity of our content with consumers and the quality of our strategic partnerships with key retailers. We currently have a 39% market share in fitness according to Nielsen VideoScan. As a result of this leading market position, we have been successful in becoming the category manager for yoga and fitness media in over 5,500 retail doors. This role uniquely positions Gaiam as a close partner with retailers and provides us the opportunity to manage the entire fitness category at these locations.

**Owned Content.** As media content distribution continues to move to a digital online model, the fact that we own all rights to the majority of our titles will permit us to offer them through any channel of distribution. We have over 10 million customers that have purchased directly from Gaiam to whom we can market digital content as the online and mobile digital format becomes more mainstream.

**Unique Products.** Our in-house marketing and product development team leads our development of unique and innovative products unavailable under other brands. In the yoga category, we continually source new and different materials and patterns for our core yoga offerings. Our recent success in wellbeing has been driven by new rehabilitative products marketed under Restore by Gaiam and SPRI Dynamic Recovery. We continually research the trends in all of our markets, and believe that we can continue to develop innovative products and content that address the changing needs of our consumers.

### **Our Employees**

As of February 28, 2014, we employed approximately 267 full-time and 10 part-time individuals. None of our employees are covered by a collective bargaining agreement.

### **Regulatory Matters**

A number of existing and proposed laws restrict disclosure of consumers' personal information, which may make it more difficult for us to generate additional names for our direct marketing, and restrict our ability to send unsolicited electronic mail or printed materials. Although we believe we are generally in compliance with current laws and regulations and that these laws and regulations have not had a significant impact on our business to date, it is possible that existing or future regulatory requirements will impose a significant burden on us.

We generally collect sales taxes only on sales to residents of states in which we have nexus. Currently, we collect sales taxes on certain sales to residents of Colorado, Illinois, New York, Ohio, and Texas. A number of legislative proposals have been made at the federal, state and local level, and by foreign governments, that would impose additional taxes on the sale of goods and services over the Internet, and certain states have taken measures to tax Internet-related activities. If legislation is enacted that requires us to collect sales taxes on sales to residents of other states or jurisdictions, sales in our direct to consumer businesses may be adversely affected. Our business is also subject to a number of other governmental regulations, including the Mail or Telephone Order Merchandise Rule and related regulations of the Federal Trade Commission. These regulations prohibit unfair methods of competition and unfair or deceptive acts or practices in connection with mail and telephone order sales and require sellers of mail and telephone order merchandise to conform to certain rules of conduct with respect to shipping dates and shipping delays. We are also subject to regulations of the U.S. Postal Service and various state and local consumer protection agencies relating to matters such as advertising, order solicitation, shipment deadlines and customer refunds and returns. In addition, merchandise that we import is subject to import and customs duties and, in some cases, import quotas.

### **Seasonality**

See the Quarterly and Seasonal Fluctuations section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for information pertaining to the seasonal aspects of our business.

### **Available Information**

Our corporate website at [www.gaiam.com](http://www.gaiam.com) provides information about us, our history, goals and philosophy, as well as certain financial reports and corporate press releases. Our [www.gaiam.com](http://www.gaiam.com) website also features a library of information and articles on personal development and healthy lifestyles, along with an extensive offering of media, products and services. We believe our website provides us with an opportunity to deepen our relationships with our customers and investors, educate them on a variety of issues, and improve our service. As part of this commitment, we have a link on our corporate website to our Securities and Exchange Commission filings, including our reports on Form 10-K, 10-Q and 8-K and amendments thereto. We make those reports available through our website, free of charge, as soon as reasonably practicable after these reports are filed with the Securities and Exchange Commission.



---

## **Table of Contents**

We have included our website addresses only as inactive textual reference, and the information contained on our website is not incorporated by reference into this Form 10-K.

### **Item 1A. Risk Factors**

We wish to caution you that there are risks and uncertainties that could cause our actual results to be materially different from those indicated by forward looking statements that we make from time to time in filings with the Securities and Exchange Commission, news releases, reports, proxy statements, registration statements and other written communications as well as oral forward looking statements made from time to time by our representatives. These risks and uncertainties include those risks described below of which we are presently aware. Historical results are not necessarily an indication of the future results. The risk factors below discuss important factors that could cause our business, financial condition, operating results and cash flows to be materially adversely affected.

#### ***Changes in general economic conditions could have a material impact on our business***

Changes in overall economic conditions that impact consumer spending could impact our results of operations. Future economic conditions affecting disposable income such as employment levels, consumer confidence, credit availability, business conditions, stock market volatility, inflation, acts of terrorism, threats of war, and interest and tax rates could reduce consumer spending or cause consumers to shift their spending away from our products. If the economic conditions and performance of the retail and media environment worsen, we may experience material adverse impacts on our business, operating results and financial condition.

#### ***Increased competition could impact our financial results***

We believe that the LOHAS market includes thousands of small, local and regional businesses. Some smaller businesses may be able to more effectively personalize their relationships with customers, thereby gaining a competitive advantage. Although we believe that we do not compete directly with any single company that offers our entire range of merchandise and services, within each category we have competitors and we may face competition from new entrants. Some of our competitors or our potential competitors may have greater financial and marketing resources and greater brand recognition. In addition, larger, well-established and well-financed entities may acquire, invest in or form joint ventures with our competitors. Increased competition from these or other competitors could negatively impact our business.

#### ***Changing consumer preferences may have an adverse effect on our business***

We target consumers who assign high value to personal development, healthy lifestyles, responsible media, and the environment. A decrease of consumer interest in purchasing goods and services that promote the values we espouse would materially and adversely affect our customer base and sales revenues and, accordingly, our financial prospects. Further, consumer preferences and product trends are difficult to predict. Our future success depends in part on our ability to anticipate and respond to changes in consumer preferences and we may not respond in a timely or commercially appropriate manner to such changes. Failure to anticipate and respond to changing consumer preferences and product trends could lead to, among other things, lower sales of our products, increased merchandise returns and lower margins, which could have a material adverse effect on our business.

#### ***Our strategy of offering branded products could lead to inventory risk and higher costs***

An important part of our strategy is to feature branded products. These products are sold under our brand names and are manufactured to our specifications. We expect our reliance on branded merchandise to increase. The use of branded merchandise requires us to incur costs and risks relating to the design and purchase of products, including submitting orders earlier and making longer initial purchase commitments.

In addition, the use of branded merchandise limits our ability to return unsold products to vendors, which can result in higher markdowns in order to sell excess inventory. Our commitment to customer service typically results in our keeping a high level of merchandise in stock so we can fill orders quickly. Consequently, we run the risk of having excess inventory, which may also contribute to higher markdowns. Our failure to successfully execute a branded merchandise strategy or to achieve anticipated profit margins on these goods, or a higher than anticipated level of overstocks, may materially adversely affect our revenues.

We offer our customers liberal merchandise return policies. Our consolidated financial statements include a reserve for anticipated merchandise returns, which is based on historical return rates. It is possible that actual returns may increase as a result of factors such as the introduction of new merchandise, changes in merchandise mix or other factors. Any increase in our merchandise returns will correspondingly reduce our revenues and profits.





---

## **Table of Contents**

### ***Acquisitions and new initiatives may harm our financial results***

We have historically expanded our operations in part through strategic acquisitions and through new initiatives that we generate. We cannot accurately predict the timing, size and success of these efforts. Our acquisition and new initiative strategies involve significant risks that could inhibit our growth and negatively impact our operating results, including the following: our ability to identify suitable acquisition candidates or new initiatives at acceptable prices; our ability to complete the acquisitions of candidates that we identify or develop our new initiatives; our ability to compete effectively for available acquisition opportunities; increases in asking prices by acquisition candidates to levels beyond our financial capability or to levels that would not result in the returns required by our acquisition criteria; diversion of management's attention to expansion efforts; unanticipated costs and contingent liabilities associated with acquisitions and new initiatives; failure of acquired businesses or new initiatives to achieve expected results; our failure to retain key customers or personnel of acquired businesses and difficulties entering markets in which we have no or limited experience. In addition, the size, timing and success of any future acquisitions and new initiatives may cause substantial fluctuations in our operating results from quarter to quarter. Consequently, our operating results for any quarter may not be indicative of the results that may be achieved for any subsequent quarter or for a full fiscal year. These fluctuations could adversely affect the market price of our Class A common stock.

### ***The loss of the services of our key personnel could disrupt our business***

We depend on the continued services and performance of our senior management and other key personnel, particularly Jirka Rysavy and Lynn Powers, who intends to retire once a replacement is identified and transitioned into Gaiam. A loss of one or more of the members of our senior management or key personnel, without suitable replacements, could severely and negatively impact our operations. Our strategy of allowing the management teams of some acquired companies to continue to exercise significant management responsibility for those companies makes it important that we retain key employees, particularly the sales and creative teams, of the companies we might acquire. Hiring qualified management is difficult due to the limited number of qualified professionals in the industry in which we operate. Failure to attract and retain personnel, particularly management personnel, could materially harm our business, financial condition, and results of operations.

### ***Our founder and chairman Jirka Rysavy controls us***

Mr. Rysavy holds 100% of our 5,400,000 outstanding shares of Class B common stock and also owns 648,682 shares of Class A common stock. The shares of Class B common stock are convertible into shares of Class A common stock at any time. Each share of Class B common stock has ten votes per share, and each share of Class A common stock has one vote per share. Consequently, Mr. Rysavy holds approximately 75% of our voting stock and, thus, is able to exert substantial influence over us and to control matters requiring approval by our shareholders, including the election of directors, increasing our authorized capital stock, or a merger or sale of substantially all of our assets. As a result of Mr. Rysavy's control of us, no change of control can occur without Mr. Rysavy's consent.

### ***Our success depends on the value of our brand***

Because of our reliance on sales of proprietary products, our success depends on our brand. Building and maintaining recognition of our brand are important for attracting and expanding our customer base. If the value of our brand were adversely affected, we cannot be certain that we will be able to attract new customers, retain existing customers or encourage repeat purchases, and if the value of our brand were to diminish, our revenues, results of operations and prospects would be adversely affected.

### ***Our future cash flows may not be sufficient to meet our obligations and we may have difficulty obtaining financing***

Our cash balance at December 31, 2013 was \$32.2 million, primarily due to recent sales of certain investments. We presently do not have any financing arrangements in place to assist us in meeting our obligations. There can be no assurance in the future whether we will generate sufficient cash flow from operations to meet our obligations or whether we would be able to secure financing or other sources of funds, such as from the sale of our shelf registration stock or investments in Real Goods Solar, Inc., and Cinedigm Corp. Class A common stock, should the need arise.

### ***Disputes concerning media content and intellectual property may adversely affect us***

Most of our media content is subject to arrangements with third parties pursuant to which we have licensed certain rights to use and distribute media content owned by third parties or have licensed to third parties certain rights to use and distribute media content that we own. In addition, we have a number of agreements with third parties concerning the use of our media content and intellectual property, including agreements regarding royalties, distribution, duplication, etc. Allegations that our rights to use media content are incomplete or other disputes arising from such arrangements may be costly and may have a material adverse impact on our results.



---

## **Table of Contents**

### ***Product liability claims against us could result in adverse publicity and potentially significant monetary damages***

As a seller of consumer products, we may face product liability claims in the event that use of our products results in injuries. If such injuries or claims of injuries were to occur, we could incur monetary damages and our business could be adversely affected by any resulting negative publicity. The successful assertion of product liability claims against us also could result in potentially significant monetary damages and, if our insurance protection is inadequate to cover these claims, could require us to make significant payments from our own resources.

### ***We are dependent on third party suppliers for the success of our proprietary products***

We are dependent on the success of our proprietary products, and we rely on a select group of manufacturers to provide us with sufficient quantities to meet our customers' demands in a timely manner, produce these products in a humane and safe environment for both their workers and the planet, maintain quality standards consistent with our brand, and meet certain pricing guarantees. Our overseas sourcing arrangements carry risks associated with products manufactured outside of the U.S., including political unrest and trade restrictions, currency fluctuations, transportation difficulties, work stoppages, and other uncertainties. In addition, a number of our suppliers are small companies, and some of these vendors may not have sufficient capital, resources or personnel to maintain or increase their sales to us or to meet our needs for commitments from them. The failure of our suppliers to provide sufficient quantities of our proprietary products could decrease our revenues, increase our costs, and damage our customer service reputation.

### ***We rely on communications and shipping networks to deliver our products***

Given our emphasis on customer service, the efficient and uninterrupted operation of order-processing and fulfillment functions is critical to our business. To maintain a high level of customer service, we rely heavily on a number of different outside service providers, such as printers, telecommunications companies and delivery companies. Any interruption in services from our principal outside service providers, including delays or disruptions resulting from labor disputes, power outages, human error, adverse weather conditions or natural disasters, could materially adversely affect our business. In addition, freight carriers must ship products that we source overseas to our distribution center, and a work stoppage or political unrest could adversely affect our ability to fulfill our customer orders.

### ***Information systems upgrades or integrations may disrupt our operations or financial reporting***

We continually evaluate and upgrade our management information systems, which are critical to our business. These systems assist in processing orders, managing inventory, purchasing and shipping merchandise on a timely basis, responding to customer service inquiries, and gathering and analyzing operating data by business segment, customer, and stock keeping unit (a specific identifier for each different product). We are required to continually update these systems. Furthermore, if we acquire other companies, we will need to integrate the acquired companies' systems with ours, a process that could be time-consuming and costly. If our systems cannot accommodate our growth or if they fail, we could incur substantial expenses and our business could be adversely affected.

Additionally, success in e-commerce depends upon our ability to provide a compelling and satisfying shopping experience. To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our online technology, and if we are unable to do this, our business could be adversely affected.

### ***A material security breach could cause us to lose sales, damage our reputation or result in liability to us***

Our computer servers may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. We may need to expend significant additional capital and other resources to protect against a security breach or to alleviate problems caused by any breaches. Our relationships with our customers may be adversely affected if the security measures that we use to protect personal information such as credit card numbers are ineffective. We currently rely on security and authentication technology that we license from third parties. We may not succeed in preventing all security breaches and our failure to do so could adversely affect our business.

### ***Our systems may fail or limit user traffic, which would cause us to lose sales***

We support a portion of our business through our call center in Louisville, Colorado. Even though we have back up arrangements, we are dependent on our ability to maintain our computer and telecommunications equipment in this center in effective working order and to protect against damage from fire, natural disaster, power loss, telecommunications failure or similar events. In addition, growth of our customer base may strain or exceed the capacity of our computer and telecommunications systems and lead to degradations in performance or systems failure. We have experienced capacity constraints and failure of information systems in the past that have resulted in decreased levels of service delivery or interruptions in service to customers for limited periods of time. Although we continually review and consider upgrades to our technical

## Edgar Filing: GAIAM, INC - Form 10-K

infrastructure and provide for system redundancies and backup power to limit the likelihood of systems overload or failure, substantial damage to our systems or a systems failure that causes interruptions for a number of days could adversely affect our business. Additionally, if we are unsuccessful in updating and expanding our infrastructure, including our call center, our ability to grow may be constrained.

**Table of Contents**

***Government regulation of the Internet and E-commerce is evolving and unfavorable changes could harm our business***

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet and E-commerce. Such existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover taxation, user privacy, pricing, content, copyrights, distribution, consumer protection, the provision of online payment services and quality of products and services. Many of the fundamental statutes and regulations applicable to our business were established before the adoption and growth of the Internet and e-commerce. There is lack of clarity on how existing laws and regulations governing issues such as property ownership, sales and other taxes and personal privacy apply to the Internet and E-commerce. Unfavorable resolution of these issues may harm our business.

Specifically, the application of indirect taxes (such as sales and use tax, value-added tax (VAT), goods and services tax, business tax and gross receipt tax) to e-commerce businesses such as ours and our customers is a complex and evolving issue. In many cases, it is not clear how existing tax laws and regulations apply to the Internet and E-commerce. In addition, governments are increasingly looking for ways to increase revenues, which has resulted in discussions about tax reform and other legislative action to increase tax revenues, including through indirect taxes. We generally collect sales taxes only on sales to residents of states in which we have nexus. Currently, we collect sales taxes on certain sales to residents of Colorado, Illinois, New York, Ohio, and Texas. A number of legislative proposals have been made at the federal, state and local level, and by foreign governments, that would impose additional taxes on the sale of goods and services over the Internet and certain states and other jurisdictions have taken measures to tax Internet-related activities. If legislation is enacted that requires us to collect taxes on sales to residents of other states or jurisdictions, sales in our direct to consumer businesses may be adversely affected. Further, a successful assertion by one or more states or other jurisdictions requiring us to collect taxes where we do not do so could result in substantial tax liabilities, including for past sales, as well as penalties and interest.

---

## **Table of Contents**

### ***We may face legal liability for the content contained on our websites***

We could face legal liability for defamation, negligence, copyright, patent or trademark infringement, personal injury or other claims based on the nature and content of materials that we publish or distribute on our websites. If we are held liable for damages for the content on our websites, our business may suffer. Further, one of our goals is for our websites to be trustworthy and dependable providers of information and services. Allegations of impropriety, even if unfounded, could therefore have a material adverse effect on our reputation and our business.

### ***We may be subject to litigation which, if adversely determined, could cause us to incur substantial losses.***

From time to time during the normal course of operating our businesses, we are subject to various litigation claims and legal disputes. Some of the litigation claims may not be covered under our insurance policies, or our insurance carriers may seek to deny coverage. As a result, we might also be required to incur significant legal fees, which may have a material adverse effect on our financial position. In addition, because we cannot accurately predict the outcome of any action, it is possible that, as a result of current and/or future litigation, we will be subject to adverse judgments or settlements that could significantly reduce our earnings or result in losses.

### ***Relying on our centralized fulfillment center could expose us to losing revenue***

Prompt and efficient fulfillment of our customers' orders is critical to our business. Our facility in Cincinnati, Ohio handles a portion of our fulfillment functions and some customer-service related operations, such as returns processing. Many of our orders are filled and shipped from the Cincinnati facility. The balance is shipped by third party fulfillment centers or directly from suppliers. Because we rely on a centralized fulfillment center, our fulfillment functions could be severely impaired in the event of fire, extended adverse weather conditions, transportation difficulties or natural disasters. Because we recognize revenue only when we ship orders, interruption of our shipping could diminish our revenues.

### ***We may face quarterly and seasonal fluctuations that could harm our business***

Our revenue and results of operations have fluctuated and will continue to fluctuate on a quarterly basis as a result of a number of factors, including the timing of catalog offerings, timing of orders from retailers, recognition of costs or net sales contributed by new merchandise, fluctuations in response rates, fluctuations in paper, production and postage costs and expenses, merchandise returns, adverse weather conditions that affect distribution or shipping, shifts in the timing of holidays and changes in our merchandise mix. In particular, our net sales and profits have historically been higher during the fourth quarter holiday season. We believe that this seasonality will continue in the future.

### ***Postage and shipping costs may increase and therefore increase our expenses***

We ship our products, catalogs, and lifestyle publications to consumers and the cost of shipping is a material expenditure. Postage and shipping prices increase periodically and can be expected to increase in the future. Any inability to secure suitable or commercially favorable prices or other terms for the delivery of our merchandise and catalogs could have a material adverse effect on our financial condition and results of operations.

### ***Our business is subject to reporting requirements that continue to evolve and change, which could continue to require significant compliance effort and resources***

Because our Class A common stock is publicly traded, we are subject to certain rules and regulations of federal, state and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities, including the Public Company Accounting Oversight Board, the SEC and the NASDAQ, periodically issue new requirements and regulations and legislative bodies also review and revise applicable laws. As interpretation and implementation of these laws and rules and promulgation of new regulations continues, we will continue to be required to commit significant financial and managerial resources and incur additional expenses.

### **Item 1B. Unresolved Staff Comments**

None.





**Table of Contents****Item 2. Properties**

Our principal executive offices are located in Louisville, Colorado. Our fulfillment center is located in the Cincinnati, Ohio area. The following table sets forth certain information relating to our primary facilities:

Primary				Lease
Locations	Size	Use	Expiration	
Louisville, CO	149,044 sq. ft.	Headquarters and studios	Owned	
Cincinnati, OH	208,120 sq. ft.	Fulfillment center	June 2016	
New York, NY	12,700 sq. ft.	Closed (former entertainment media office)	March 2015	
Libertyville, IL	7,691 sq. ft.	Office	December 2014	

We rent to third parties approximately 61,400 square feet of our building space located in Colorado. Our existing fulfillment center lease has renewal options permitting the extension of the lease for up to an additional three years. As a result of our divestiture of our non-branded entertainment media operations and our discontinuance of our DRTV operations, in the fourth quarter of 2013 we closed our office in New York, NY and recognized an expense representing the cumulative remaining obligation under that lease agreement, net of expected recoveries from sublease agreements. We believe our facilities are adequate to meet our current needs and that suitable additional facilities will be available for lease or purchase when, and as, we need them.

**Item 3. Legal Proceedings**

From time to time, we are involved in various 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 4. Mine Safety Disclosures**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**  
**Stock Price History**

Our Class A common stock is listed on the NASDAQ Global Market under the symbol "GAIA". On March 5, 2014, we had 4,209 shareholders of record and 18,602,803 shares of \$.0001 par value Class A common stock outstanding, and we had 5,400,000 shares of \$.0001 par value Class B common stock outstanding, held by one shareholder.

The following table sets forth certain sales price data for our Class A common stock for the period indicated:

	High	Low
Fiscal 2013:		
Fourth Quarter	\$ 6.74	\$ 4.99
Third Quarter	\$ 6.06	\$ 4.45
Second Quarter	\$ 4.94	\$ 3.70
First Quarter	\$ 4.54	\$ 2.95
Fiscal 2012:		
Fourth Quarter	\$ 3.50	\$ 2.23

Third Quarter	\$ 4.02	\$ 3.26
Second Quarter	\$ 4.28	\$ 3.65
First Quarter	\$ 4.28	\$ 3.03
<b>Issuer Purchases of Registered Equity Securities</b>		

None.

**Dividend Policy**

We paid the 2010 and 2011 declared dividends during 2010, and no dividends have since been declared or paid.

## **Table of Contents**

### **Sales of Unregistered Securities**

We issued 1,055,000 shares of our Class A common stock into escrow as partial payment of an acquisition we completed during 2013. The escrowed shares will be held by the escrow agent to secure the indemnification obligations and certain other obligation under the agreement. On April 30, 2014, the escrow agent will release the escrowed shares, less any shares released or held in connection with any indemnification claims under the agreement. Any shares not ultimately released to the seller will be released to us and cancelled.

The issuance of the securities described above was exempt from registration under Section 4(a)(2) of the Securities Act because (a) the seller represented in writing that it acquired the securities for its own accounts, for investment purposes only and not with a view to sell them, (b) the issuance was not effected through any general solicitation or general advertising, (c) the seller had such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in Gaiam, Inc., (d) a legend was placed on the stock certificates stating that the securities have not been registered under the Securities Act and cannot be sold or otherwise transferred without an effective registration or an exemption therefrom.

### **Equity Compensation Plan Information**

The following table summarizes equity compensation plan information for our Class A common stock at December 31, 2013:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans</b>
Equity compensation plans approved by security holders	1,662,450	\$ 5.65	1,678,434
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>1,662,450</b>	<b>\$ 5.65</b>	<b>1,678,434</b>

### **Stock Performance Graph**

The graph below shows, for the five years ended December 31, 2013, the cumulative total return on an investment of \$100 in our Class A common stock, assuming the investment was made on December 31, 2008, and also shows the relative stock performances of our Class A common stock commencing with Gaiam's initial public offering on October 29, 1999 until December 31, 2008. The graph compares such return with that of comparable investments assumed to have been made on the same date in (a) the NASDAQ Stock Market (U.S. Companies) Index and (b) a media peer group, comprised of Martha Stewart Living Omnimedia, Inc.; The Walt Disney Company; and Lions Gate Entertainment Corp. Although total return for the assumed investment reflects a reinvestment of all dividends on December 31<sup>st</sup> of the year in which such dividends are paid, no cash dividends were paid on our common stock until the two dividends we paid in 2010. Our Class A common stock is quoted by The NASDAQ Stock Market's Global Market under the trading symbol GAIA.

**Table of Contents**

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

**Item 6. Selected Financial Data**

We derived the selected consolidated statement of operations data for the years ended December 31, 2013, 2012 and 2011 and consolidated balance sheet data as of December 31, 2013 and 2012 set forth below from our audited consolidated financial statements, which are included elsewhere in this Form 10-K. We derived the selected consolidated statement of operations data for the years ended December 31, 2010 and 2009 and consolidated balance sheet data as of December 31, 2011, 2010 and 2009 set forth below from our audited consolidated financial statements which are not included in this Form 10-K. During 2013, we sold our non-Gaiam branded entertainment media distribution operations and discontinued our DRTV operations. We now report these businesses as discontinued operations, and, accordingly, we have reclassified the selected financial data for all periods presented to reflect them as such.

**Table of Contents**

The historical operating results are not necessarily indicative of the results to be expected for any other period. You should read the data set forth below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, included elsewhere in this Form 10-K. Until December 31, 2011, we accounted for our investment in Real Goals Solar as a consolidated subsidiary.

(in thousands, except per share data)	Years ended December 31,				
	2013 (c)(d)	2012 (b)	2011 (a)	2010 (a)	2009 (a)
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$ 155,463	\$ 127,242	\$ 223,691	\$ 204,017	\$ 198,416
Cost of goods sold	90,155	70,723	144,835	122,917	119,760
Gross profit	65,308	56,519	78,856	81,100	78,656
<b>Expenses:</b>					
Selling and operating	64,657	56,292	73,525	64,574	74,062
Corporate, general and administration	11,249	10,400	11,828	10,772	11,165
Acquisition-related costs	76		2,393		
Other general income and expense	10,967		22,456		
Total expenses	86,949	66,692	110,202	75,346	85,227
Income (loss) from operations	(21,641)	(10,173)	(31,346)	5,754	(6,571)
Interest and other income (expense)	2,421	(86)	(90)	1,291	(1,524)
Gain on sale of investment	25,096				
Loss from equity method investment		(18,410)			
Loss from deconsolidation of subsidiary			(4,550)		
Income (loss) before income taxes	5,876	(28,669)	(35,986)	7,045	(8,095)
Income tax expense (benefit)	25,974	(9,444)	(10,713)	2,192	(4,225)
Net income (loss) from continuing operations	(20,098)	(19,225)	(25,273)	4,853	(3,870)
Income from discontinued operations, net of tax	(1,995)	6,648	3	216	3,653
Net income (loss)	(22,093)	(12,577)	(25,270)	5,069	(217)
Net (income) loss attributable to noncontrolling interest	(659)	(305)	398	(794)	513
Net income (loss) attributable to Gaiam, Inc.	\$ (22,752)	\$ (12,882)	\$ (24,872)	\$ 4,275	\$ 296
<b>Net income (loss) per share attributable to Gaiam, Inc. common shareholders - basic:</b>					
From continuing operations	\$ (0.90)	\$ (0.86)	\$ (1.08)	\$ 0.17	\$ (0.14)
From discontinued operations	(0.09)	0.29	0.00	0.01	0.15
Basic net income (loss) per share attributable to Gaiam, Inc.	\$ (0.99)	\$ (0.57)	\$ (1.08)	\$ 0.18	\$ 0.01
<b>Net income (loss) per share attributable to Gaiam, Inc. common shareholders - diluted:</b>					
From continuing operations	\$ (0.89)	\$ (0.86)	\$ (1.08)	\$ 0.17	\$ (0.15)
From discontinued operations	(0.09)	0.29	0.00	0.01	0.16
Diluted net income (loss) per share attributable to Gaiam, Inc.	\$ (0.98)	\$ (0.57)	\$ (1.08)	\$ 0.18	\$ 0.01

Edgar Filing: GAIAM, INC - Form 10-K

Weighted-average shares outstanding:					
Basic	22,972	22,703	23,126	23,226	23,306
Diluted	23,115	22,703	23,126	23,383	23,378

(in thousands)	As of December 31,				
	2013 (c)	2012 (b)	2011 (b)	2010 (a)	2009 (a)
<b>Consolidated Balance Sheet Data:</b>					
Cash	\$ 32,229	\$ 9,858	\$ 14,545	\$ 28,773	\$ 48,325
Working capital	60,540	51,418	62,217	95,006	94,910
Total assets	140,002	197,231	163,290	207,433	211,849
Total liabilities	34,712	78,359	32,116	38,671	44,322
Total equity	105,290	118,872	131,174	168,762	167,527

**Table of Contents**

- (a) Until December 31, 2011, we accounted for our investment in Real Goods Solar as a consolidated subsidiary.
- (b) On December 31, 2011, as a result of a decrease in our voting ownership to 37.5%, we converted our accounting for Real Goods Solar from consolidated subsidiary to equity method investment. Thus, our consolidated balance sheet data at December 31, 2011 and beyond excludes Real Goods Solar's consolidated balance sheet and our consolidated statement of operations data for 2012 presents Real Goods Solar on an equity method investment basis.
- (c) During May 2013, as a result of a decrease in our voting ownership to less than 20% and the resignation of our chairman from his position as Chairman of the Board for Real Goods Solar, we changed the accounting for our investment in Real Goods Solar from the equity to cost method. Thus, our consolidated balance sheet data at December 31, 2013 and our consolidated statement of operations data for 2013 reports Real Goods Solar as a cost method investment. See Note 3 to our consolidated financial statements for 2013.
- (d) During 2013, we recognized \$11.0 million for certain impairments and restructuring costs, \$2.0 million net loss from discontinued operations due to the closure of our DRTV business, and the sale of GVE and a \$25.0 million gain on the sale of stock. We also recorded a \$23.2 million charge to income tax expense to provide a valuation allowance against our deferred tax assets.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Forward-Looking Statements**

This report contains forward-looking statements that involve risks and uncertainties. When used in this discussion, we intend the words anticipate, believe, plan, estimate, expect, strive, future, intend and similar expressions as they relate to us to identify such forward-looking statements. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk and elsewhere in this Form 10-K. Risks and uncertainties that could cause actual results to differ include, without limitation, general economic conditions, competition, loss of key personnel, pricing, brand reputation, acquisitions, new initiatives we undertake, security and information systems, legal liability for website content, merchandise supply problems, failure of third parties to provide adequate service, 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, litigation, fluctuations in quarterly operating results, consumer trends, customer interest in our products, the effect of government regulation and programs and other risks and uncertainties included in our filings with the Securities and Exchange Commission. We caution you that no forward-looking statement is a guarantee of future performance, and you should not place undue reliance on these forward-looking statements which reflect our views only as of the date of this report. We undertake no obligation to update any forward-looking information.

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

*Discontinued Operations*

During 2013, we sold our non-branded entertainment media distribution operation and discontinued our DRTV operations. We now report these businesses as discontinued operations, separate from our continuing operations. The following management discussion and analysis of financial condition and results of operations is for our continuing operations, unless indicated otherwise.

**Overview and Outlook**

We are a leader in the design, creation, and marketing of products and media for consumers who are interested in yoga, fitness, and wellbeing. Additionally, we operate a subscription video on-demand service, Gaiam TV, which is dedicated to creating, acquiring, and delivering conscious media. Through our business activities, we seek to position our brand as a trusted source for information and products that are relevant to our consumers' active lifestyles and transformational journeys. Our broad distribution network includes retail, online, and digital channels. At the end of 2013, our brands were carried by over 38,000 retail stores worldwide. Our business is vertically integrated from product design and content creation through product development and sourcing, to customer service and distribution. This efficient supply chain enables us to provide quality products at competitive prices for all of our brands.

We intend to build upon our authenticity and heritage in the yoga, fitness, wellbeing, and conscious media sectors. We believe that the size of our end markets is growing as a result of growth in yoga participation, greater awareness of health and wellness, and the success of our retail and

## Edgar Filing: GAIAM, INC - Form 10-K

online partners. We intend to leverage our product development, supply chain, and retail relationships to continue to expand and innovate our brand's offerings enabling us to capitalize on the growth in our end markets.



---

## **Table of Contents**

On October 21, 2013, we sold GVE Newco LLC ( GVE ), a wholly-owned subsidiary of ours comprised of our non-branded entertainment media business, to Cinedigm Corp. ( CIDM ), for \$51.7 million, plus a post-closing adjustment for GVE's closing net working capital that is currently being negotiated by the parties. Going forward, we intend to focus on and invest in growing our branded yoga, fitness and wellbeing, and video subscription streaming businesses, both organically and through acquisitions.

We market our products and services across two segments: business and direct to consumer. GVE was part of our business segment and DRTV was part of our direct to consumer segment, and now both are reported as discontinued operations.

Our business segment sells directly to retailers, digital partners, and corporate accounts. Following the sale of GVE, our products were available in over 38,000 retail doors worldwide. Our business segment has also successfully expanded our brands with strategic store-within-store placements in all Sports Authority stores, bringing the total of our branded store-within-store presentations to over 14,500 locations worldwide.

During 2013, the improvement in our business segment's net revenue, which grew over 22%, was driven by strong sales of Gaiam branded yoga and fitness accessory products, SPRI accessory products, and growth of existing lines of business. Within our Gaiam branded business, Restore by Gaiam, our at-home rehabilitative and restorative offerings grew significantly at existing accounts and gained additional placement in national retailers in the sporting goods, mass, and grocery segments. Our core yoga and fitness products also grew strongly, posting double-digit percentage gains at some of our largest customers. During the year, we prioritized our initiative of expanding SPRI, our line of professional fitness accessories historically sold primarily to the commercial segment, to our consumer retail accounts. We launched the brand in one of our largest national accounts, and continued aggressively growing existing placement in the sporting goods segment. Additionally, we launched a new line of accessories under the brand SPRI CrossTrain in the fourth quarter. These accessories target the rapidly growing high intensity training market, and are now available nationally at Sports Authority.

Our business segment's net revenue was impacted by declines in DVD media. While we maintain our category management and media aggregator roles with some of the largest retailers in the country and our number one ranking on Nielsen's Videoscan for fitness media, the shift in media consumption from DVD to digital continues to impact the DVD market. We believe that our strong brand equity in fitness media combined with our category management and media aggregator roles best position us to continue leveraging our media assets. We generate strong gross margins from our media business, and with our digital business still growing strongly, are committed to the media portion of our business.

Our direct to consumer segment gives us the ability to test, launch, and support new products, and through direct relationships with our customers, allows us to promote our products, grow out digital subscription and steaming customer base, and gather customer feedback on Gaiam and the LOHAS industry.

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 and fitness, health and wellness, and apparel products. This year, we completed updates for our e-commerce platform that deliver more engaging, focused, and simplified shopping experiences to our customers. Our re-designed website has allowed us to stay even more connected with and accessible to our customers, including through user friendly mobile designs for Apple and Android devices. We continue to expand our e-commerce offerings with unique products that are only available online and that complement our core Gaiam product lines. We plan to continue to grow our offerings for video, interactive, and mobile devices as these initiatives enable us to better leverage our e-commerce and catalog products.

We are also continuing to invest in and actively market our subscription video streaming business, Gaiam TV (GaiamTV.com). In late 2013, we acquired My Yoga Online ( My Yoga ), Canada's largest online yoga video streaming subscription business, to merge it with Gaiam TV. With a subscription price the same as Gaiam TV, \$9.95 per month, My Yoga is a perfect complement to Gaiam TV's offerings and well aligned with the Gaiam brand. Now with over 6,000 video titles, Gaiam TV offers subscribers access to the world's largest online library of yoga and fitness, health and wellness, and conscious media videos.

## **Critical Accounting Policies**

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States, which require us to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 2 to the consolidated financial statements in Item 8 of this Form 10-K summarizes the significant accounting policies and methods used in the preparation of our consolidated financial statements.

We believe the following to be critical accounting policies whose application has a material impact on our financial presentation, and involve a higher degree of complexity, as they require us to make judgments and estimates about matters that are inherently uncertain.



---

## **Table of Contents**

### *Allowances for Doubtful Accounts and Product Returns*

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We make estimates of the collectability of our accounts receivable by analyzing historical bad debts, specific customer creditworthiness, and current economic trends. If the financial condition of our customers were to deteriorate such that their ability to make payments to us was impaired, additional allowances could be required.

We record allowances for product returns to be received in future periods at the time we recognize the original sale. We base the amounts of the returns allowances upon historical experience and future expectations.

### *Inventory*

Inventory consists primarily of finished goods held for sale and is stated at the lower of cost (first-in, first-out method) or market. We identify the inventory items to be written down for obsolescence based on the item's current sales status and condition. We write down discontinued or slow moving inventories based on an estimate of the markdown to retail price needed to sell through our current stock level of the inventories.

### *Goodwill and Other Intangibles*

Goodwill represents the excess of the purchase consideration over the estimated fair value of assets acquired less liabilities assumed in a business acquisition. Our other intangibles consist of customer related assets. We review goodwill for impairment annually or more frequently if impairment indicators arise on a goodwill reporting unit level. We have the option of first assessing qualitative factors to determine whether events and circumstances indicate that it is more likely than not that the fair value of a goodwill reporting unit is less than its carrying amount. If it is determined that the fair value for a goodwill reporting unit is more likely than not greater than the carrying amount for that goodwill reporting unit, then the two-step impairment test is unnecessary. If it is determined that the two-step impairment test is necessary, then for step one, we compare the estimated fair value of a goodwill reporting unit with its carrying amount, including goodwill. If the estimated fair value of a goodwill reporting unit exceeds its carrying amount, we consider the goodwill of the reporting unit not impaired. If the carrying amount of a goodwill reporting unit exceeds its estimated fair value, we perform the second step of the goodwill impairment test to measure the amount of impairment loss. We use either a comparable market approach or a traditional present value method to test for potential impairment. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment at many points during the analysis. Application of alternative assumptions and definitions could yield significantly different results.

### *Investments*

We account for investments in equity securities that have readily determinable fair values that are not trading securities as available-for-sale securities. Unrealized changes in the fair value of an available-for-sale security are reported in accumulated other comprehensive income, net of tax, until disposed of or determined to be other-than-temporarily impaired, at which time the realized changes are reported in our statement of operations. At December 31, 2013, we had an equity investment with an estimated fair value of \$1.3 million, based on its public stock trading price on that date, reported in other assets on our consolidated balance sheet.

### *Purchase Accounting*

We account for the acquisition of a controlling interest in a business using the acquisition method. In determining the estimated fair value of certain acquired assets and liabilities, we make assumptions based upon many different factors, such as historical and other relevant information and analyses performed by independent parties. Assumptions may be incomplete, and unanticipated events and circumstances may occur that could affect the validity of such assumptions, estimates, or actual results.

---

## **Table of Contents**

### *Media Library*

Our media library asset represents the fair value of libraries of media acquired through business combinations, the purchase price of media rights to both video and audio titles, and the capitalized cost to produce media products, all of which we market to retailers and to catalog, e-commerce, and subscription customers. We amortize the fair value of acquired or purchased media titles and content on a straight-line basis over succeeding periods on the basis of their estimated useful lives. We defer capitalized production costs for financial reporting purposes until the media is released, and then amortize these costs over succeeding periods on the basis of estimated sales. Historical sales statistics are the principal factor used in estimating the amortization rate.

### *Revenue*

Revenue primarily consists of sales of products, media licensing, and media distribution. We recognize revenue from the sale of products and the licensing of media when the following four basic criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and (4) collectability is reasonably assured. We recognize distribution fees from our non-branded entertainment media distribution business and certain other media distribution operations on a net revenue basis. For these media distribution sales, we do not take title to the related product sold as the inventory is owned by the studios or content producers and sold by us under distribution agent agreements. We recognize amounts billed to customers for postage and handling as revenue at the same time we recognize the revenue arising from the product sale. We present revenue net of taxes collected from customers.

Prior to 2012, we also recognized revenue from Real Goods Solar's energy integration fixed price contracts. For energy system installations of less than 100 kilowatts, we recognized revenue when the installation was substantially complete, determined based on departure from the job site following completion of the installation or passing of building inspection, while for energy system installations equal to or greater than 100 kilowatts, we recognized revenue on a percentage-of-completion basis, with the extent of progress towards completion measured by the cost to cost method.

### *Share-Based Compensation*

We measure compensation cost at the grant date based on the fair value of the award and recognize compensation cost upon the probable attainment of a specified performance condition or over a service period. We use the Black-Scholes option valuation model to estimate the grant date fair value. In estimating this fair value, there are certain assumptions that we use, as disclosed in Note 8. Share-Based Compensation, consisting of the expected life of the option, risk-free interest rate, dividend yield, and volatility. The use of a different estimate for any one of these components could have a material impact on the amount of calculated compensation expense.

### *Long-Lived Assets*

We evaluate the carrying value of long-lived assets held and used, other than goodwill, when events or changes in circumstances indicate the carrying value may not be recoverable. We consider the carrying value of a long-lived asset impaired when the total projected undiscounted cash flows from such asset are separately identifiable and are less than the carrying value. We recognize a loss based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. We determine the estimated fair value primarily using the projected cash flows from the asset discounted at a rate commensurate with the risk involved.

## **Results of Operations**

### **Supplemental Pro Forma Financial Information**

The following supplemental pro forma information is presented for informational purposes only, as an aid to understanding our historical financial results as if our deconsolidation of Real Goods Solar was effective for all periods presented. This pro forma information should not be considered a substitute for the actual historical financial information prepared in accordance with generally accepted accounting principles (GAAP), as presented in our filings on Forms 10-Q and 10-K. The unaudited pro forma consolidated financial information disclosed below is for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the pro forma events taken place on the date indicated, or our future consolidated results of operations.

On December 31, 2011, we converted our Real Goods Solar Class B common shares, which had ten votes per share, to Real Goods Solar Class A common shares, which have one vote per share. As a result of this conversion, our voting ownership decreased to approximately 37.5% and, thus, we no longer had financial control of Real Goods Solar, but retained significant financial influence. Accordingly, we deconsolidated Real Goods Solar and reported it as an equity investment on our consolidated statement of operations for year ended December 31, 2012 and as

## Edgar Filing: GAIAM, INC - Form 10-K

a consolidated subsidiary for the year ended December 31, 2011. During May 2013, as a result of a decrease in our voting ownership to less than 20% and the resignation of our chairman from his position as Chairman of the Board for Real Goods Solar, we changed the accounting for our investment in Real Goods Solar from the equity to cost method. Thus, our consolidated balance sheet data at December 31, 2013 and our consolidated statement of operations for 2013 reports Real Goods Solar as a cost method investment. See Note 3 to our consolidated financial statements for 2013.

The unaudited pro forma consolidated statement of operations for the year ended December 31, 2011 presents our consolidated results of operations giving pro forma effect to the deconsolidation of Real Goods Solar as if it had occurred on January 1, 2011 (RSOL Deconsolidated). This pro forma financial statement should be read in connection with our historical consolidated financial statement for the year ended December 31, 2011, which is also presented below (RSOL Consolidated).

We have made pro forma adjustments based on currently available information, estimates and assumptions that we believe are reasonable in order to reflect, on a pro forma basis, the impact of this deconsolidation on our historical financial information.

**Table of Contents**

The following are our unaudited pro forma consolidated statements of operations for the years ended:

(in thousands, except per share data)	RSOL Deconsolidated (a)			RSOL
	2013	2012	2011	Consolidated (b) 2011
Net revenue	\$ 155,463	\$ 127,242	\$ 114,434	\$ 223,691
Cost of goods sold	90,155	70,723	63,438	144,835
<b>Gross profit</b>	<b>65,308</b>	<b>56,519</b>	<b>50,996</b>	<b>78,856</b>
Expenses:				
Selling and operating	64,657	56,292	49,891	73,525
Corporate, general and administration	11,249	10,400	7,719	11,828
Acquisition-related costs	76			2,393
Other general expense	10,967		22,456	22,456
<b>Total expenses</b>	<b>86,949</b>	<b>66,692</b>	<b>80,066</b>	<b>110,202</b>
Loss from operations	(21,641)	(10,173)	(29,070)	(31,346)
Interest and other income (expense)	2,421	(86)	94	(90)
Gain on sale of investment	25,096			
Loss from equity method investment in RSOL		(18,410)	(713)	
Loss from deconsolidation of RSOL				(4,550)
Income (loss) before income taxes	5,876	(28,669)	(29,689)	(35,986)
Income tax expense (benefit)	25,974	(9,444)	(3,004)	(10,713)
Income (loss) from continuing operations	(20,098)	(19,225)	(26,685)	(25,273)
Income from discontinued operations	(1,995)	6,648	3	3
Net income (loss)	(22,093)	(12,577)	(26,682)	(25,270)
Net (income) loss attributable to noncontrolling interest	(659)	(305)	(454)	398
<b>Net income (loss) attributable to Gaiam, Inc.</b>	<b>\$ (22,752)</b>	<b>\$ (12,882)</b>	<b>\$ (27,136)</b>	<b>\$ (24,872)</b>
Net income (loss) per share attributable to Gaiam, Inc. common shareholders basic:				
From continuing operations	\$ (0.90)	\$ (0.86)	\$ (1.17)	\$ (1.08)
From discontinued operations	(0.09)	0.29	0.00	0.00
<b>Basic net income (loss) per share attributable to Gaiam, Inc.</b>	<b>\$ (0.99)</b>	<b>\$ (0.57)</b>	<b>\$ (1.17)</b>	<b>\$ (1.08)</b>
Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted:				
From continuing operations	\$ (0.89)	\$ (0.86)	\$ (1.17)	\$ (1.08)
From discontinued operations	(0.09)	0.29	0.00	0.00
<b>Diluted net income (loss) per share attributable to Gaiam, Inc.</b>	<b>\$ (0.98)</b>	<b>\$ (0.57)</b>	<b>\$ (1.17)</b>	<b>\$ (1.08)</b>
Weighted average shares outstanding:				
Basic	22,972	22,703	23,126	23,126
Diluted	23,115	22,703	23,126	23,126



**Table of Contents**

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

	RSOL Deconsolidated (a)			RSOL Consolidated (b)
	2013	2012	2011	2011
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	58.0%	55.6%	55.4%	64.7%
<b>Gross profit</b>	<b>42.0%</b>	<b>44.4%</b>	<b>44.6%</b>	<b>35.3%</b>
Expenses:				
Selling and operating	41.6%	44.2%	43.6%	32.9%
Corporate, general and administration	7.2%	8.2%	6.7%	5.3%
Acquisition-related costs	%	0.0%	%	1.1%
Other general expense	7.1%	%	19.7%	10.0%
<b>Total expenses</b>	<b>55.9%</b>	<b>52.4%</b>	<b>70.0%</b>	<b>49.3%</b>
Loss from operations	-13.9%	-8.0%	-25.4%	-14.0%
Interest and other income (expense)	1.6%	-0.1%	0.1%	0.0%
Gain on sale of investment	16.1%	%	%	%
Loss from equity method investment in RSOL	%	-14.4%	-0.6%	%
Loss from deconsolidation of RSOL	%	%	%	-2.1%
Income (loss) before income taxes	3.8%	-22.5%	-25.9%	-16.1%
Income tax expense (benefit)	16.7%	-7.4%	-2.6%	-4.8%
Income (loss) from continuing operations	-12.9%	-15.1%	-23.3%	-11.3%
Income from discontinued operations	-1.3%	5.2%	0.0%	0.0%
Net income (loss)	-14.2%	-9.9%	-23.3%	-11.3%
Net (income) loss attributable to noncontrolling interest	-0.4%	-0.2%	-0.4%	0.2%
Net income (loss) attributable to Gaiam, Inc.	-14.6%	-10.1%	-23.7%	-11.1%

(a) As if Real Goods Solar was deconsolidated effective January 1, 2011 and accounted for as an equity method investee during 2011 and 2012 and as a cost method investment during 2013.

(b) With Real Goods Solar accounted for as a consolidated subsidiary.

**Year Ended December 31, 2013 Compared to Year Ended December 31, 2012**

*Net revenue.* Net revenue increased \$28.2 million, or 22.2%, to \$155.5 million during 2013 from \$127.2 million during 2012, with organic net revenue growth of \$27.6 million or 21.7%. Net revenue in our business segment increased \$19.0 million, or 22.5%, to \$103.4 million during 2013 from \$84.4 million during 2012, due to better sales performance at our top 25 retailers and growth in our Gaiam Restore and SPRI product lines. Net revenue in our direct to consumer segment increased \$9.2 million, or 21.5%, to \$52.0 million during 2013 from \$42.9 million during 2012 due primarily to subscriber growth at Gaiam TV, revenues from My Yoga Online, which was acquired during the fourth quarter of 2013, and increased revenue at our travel subsidiary.

*Cost of goods sold.* Cost of goods sold increased \$19.4 million, or 27.5%, to \$90.2 million during 2013 from \$70.7 million during 2012. Cost of goods sold in our business segment increased \$14.3 million to \$61.5 million during 2013 from \$47.2 million during 2012 and, as a percentage of net revenue, increased to 59.4% during 2013 from 55.9% during 2012, primarily due to a shift in product sales mix. Cost of goods sold in our direct to consumer segment increased \$5.1 million to \$28.7 million during 2013 from \$23.5 million during 2012 and, as a percentage of net



## Edgar Filing: GAIAM, INC - Form 10-K

revenue, increased to 55.1% during 2013 from 54.9% during 2012, primarily reflecting growth in our travel division which operates at a lower gross margin.

*Selling and operating expenses.* Selling and operating expenses increased \$8.4 million, or 14.9%, to \$64.7 million during 2013 from \$56.3 million during 2012 and, as a percentage of net revenue, decreased to 41.6% during 2013 from 44.2% during 2012, primarily due to additional investments in our digital subscription businesses.

*Corporate, general and administration expenses.* Corporate, general and administration expenses increased \$0.8 million to \$11.2 million during 2013 from \$10.4 million during 2012 and, as a percentage of net revenue, decreased to 7.2% during 2013 from 8.2% during 2012, primarily as a result of increased personnel costs.

*Other general expense.* Other general expense was \$11.0 million during 2013 and zero during 2012. The other general expense during 2013 is comprised of impairment charges of \$7.1 million, restructuring-related termination benefits and future retirement benefits for one of our executive officers totalling \$2.5 million, and \$1.4 million of transaction-related and other expenses. The asset impairments and termination benefits, other than those for one of our executive officers, are due to the reorganization and refocus of our continuing businesses following the discontinuation of our non-branded entertainment media distribution and direct response television marketing operations.

---

**Table of Contents**

*Interest and other income (expense), net.* Interest and other income (expense), net was income of \$2.4 million during 2013 compared to expense of \$0.1 million during 2012. Interest and other income, net during 2013 resulted primarily from the collection of principal and interest on our loans to Real Goods Solar, the carrying values for which had previously been reduced to zero through the recognition of losses from our equity method investment in Real Goods Solar.

*Gain on sale of investment.* Gain on sale of investment of \$25.1 million during 2013 represents our gain recognized and net proceeds received from the sale of approximately 9.2 million shares of our investment in Real Goods Solar's common stock.

*Loss from equity method investment.* Loss from equity method investment was zero during 2013 and \$18.4 million during 2012 and represented our portion of Real Goods Solar's net loss for 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 financial results.

*Income tax expense (benefit).* Income tax expense during 2013 was increased primarily by a valuation allowance against our deferred tax assets and by the repatriation of cash from one of our foreign subsidiaries and other permanent differences. Income tax benefit during 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.

*Income (loss) from continuing operations.* As a result of the above factors, loss from continuing operations was \$20.1 million before minority interest, or \$0.89 per share net of minority interest, during 2013 compared to a loss from continuing operations of \$19.2 million, or \$0.86 per share, during 2012.

*Income from discontinued operations.* During 2013, we sold GVE and discontinued our DRTV operations. Accordingly, we reclassified and now report the financial results for these businesses as discontinued operations. Income from discontinued operations decreased \$8.6 million during 2013 from \$6.6 million during 2012, primarily due to the discontinuance and asset write-off of DRTV.

*Net income (loss) attributable to Gaiam, Inc.* Net loss attributable to Gaiam, Inc. was \$22.3 million, or \$0.98 per share, during 2013 compared to a loss of \$12.9 million, or \$0.57 per share, during 2012.

**Year Ended December 31, 2012 Compared to Year Ended December 31, 2011**

*Net revenue.* Excluding our formerly consolidated subsidiary, Real Goods Solar, which was deconsolidated on December 31, 2011 (refer to the Supplemental Pro Forma Financial Information above), net revenue increased \$12.8 million, or 11.2%, to \$127.2 million during 2012 from \$114.4 million during 2011. Net revenue in our business segment increased \$15.0 million, or 21.6%, to \$84.4 million during 2012 from \$69.4 million during 2011, due to better sales performance at our top 25 retailers that contributed to an internal revenue growth of approximately 11.2%. Net revenue in our direct to consumer segment decreased \$2.2 million, or 4.9%, to \$42.8 million during 2012 from \$45.0 million during 2011, primarily attributable to a decrease in catalog circulation. Including Real Goods Solar, net revenue decreased \$96.4 million, or 43.1%, during 2012 from \$223.7 million during 2011.

*Cost of goods sold.* Excluding Real Goods Solar, cost of goods sold increased \$7.3 million, or 11.5%, to \$70.7 million during 2012 from \$63.4 million during 2011 and, as a percentage of net revenue, increased to 55.6% during 2012 from 55.4% during 2011. Cost of goods sold in our business segment increased \$7.0 million, or 17.5%, to \$47.2 million during 2012 from \$40.2 million during 2011 and, as a percentage of net revenue, decreased to 55.9% during 2012 from 57.9% during 2011, primarily due to product mix. Cost of goods sold in our direct to consumer segment increased \$0.2 million, or 1.2%, to \$23.5 million during 2012 from \$23.3 million during 2011 and, as a percentage of net revenue, increased to 54.9% during 2012 from 51.7% during 2011, primarily due to the growth of Gaiam TV and corresponding cost of goods sold, and liquidation of inventories. Including Real Goods Solar, cost of goods sold decreased \$74.1 million, or 51.2%, during 2012 from \$144.8 million during 2011.

*Selling and operating expenses.* Excluding Real Goods Solar, selling and operating expenses increased \$6.4 million, or 12.8%, to \$56.3 million during 2012 as compared to \$49.9 million during 2011 and, as a percentage of net revenue, decreased to 44.2% during 2012 from 43.6% during 2011, primarily due to the acquisition of Vivendi Entertainment, which was completed in the first quarter of 2012. Including Real Goods Solar, selling and operating expenses decreased \$17.2 million, or 23.4%, during 2012 from \$73.5 million during 2011.

*Corporate, general and administration expenses.* Excluding Real Goods Solar, corporate, general and administration expenses increased \$2.7 million, or 34.7%, to \$10.4 million during 2012 as compared to \$7.7 million during 2011 and, as a percentage of net revenue, increased to 8.2% compared to 6.7% during 2011, primarily as a result of costs of certain legal matters that were resolved during the year. Including Real Goods

## Edgar Filing: GAIAM, INC - Form 10-K

Solar, corporate, general and administration expenses decreased \$1.4 million, or 12.1%, during 2012 from \$11.8 million during 2011.

**Table of Contents**

*Acquisition-related costs.* Acquisition-related costs were zero during 2012 and \$2.4 million during 2011, representing transaction expenses related to Real Goods Solar's acquisition of Alteris.

*Loss from equity method investment.* Loss from equity method investment was \$18.4 million during 2012 and was comprised of our noncash portion, \$17.0 million, of Real Goods Solar's net loss for 2012, which included noncash impairment charges to its goodwill, deferred tax assets, and other assets of \$38.1 million, and a \$1.6 million valuation allowance for a deferred tax asset related to our Tax Sharing Agreement with Real Goods Solar, partially offset by \$0.2 million of interest received from Real Goods Solar on our first loan to them. The recording of our portion of Real Goods Solar's net loss for 2012 reduced the carrying values of our equity method investments in and loans to Real Goods Solar to zero at December 31, 2012. As a result, we do not anticipate needing to report any potential future net losses from Real Goods Solar. Due to related income tax benefits as discussed below, the net impact to us of these equity investment related transactions was a noncash loss of \$12.4 million.

*Income tax benefit.* Income tax benefit during 2012 includes \$6.0 million due to the reducing of a deferred tax liability related to the carrying value of our equity method investment in Real Goods Solar.

*Loss from continuing operations.* As a result of the above factors, loss from continuing operations was \$19.2 million, or \$0.86 per share, during 2012 compared to \$25.3 million, or \$1.08 per share, during 2011.

*Income from discontinued operations.* Income from discontinued operations increased \$6.6 million during 2012 from \$3 thousand during 2011, primarily due to the acquisition of Vivendi Entertainment in March 2012.

*Net loss attributable to Gaiam, Inc.* Net loss attributable to Gaiam, Inc. was \$12.9 million, or \$0.57 per share, during 2012 compared to \$24.9 million, or \$1.08 per share, during 2011.

**Table of Contents****Quarterly and Seasonal Fluctuations**

The following tables set forth our unaudited results of operations for each of the quarters in 2013 and 2012. During 2013, we sold our non-branded entertainment media distribution operations and discontinued our DRTV operations. We now report these businesses as discontinued operations, and, accordingly, we have reclassified their results of operations for all periods presented to reflect them as such. In our opinion, this unaudited financial information includes all adjustments, consisting solely of normal recurring accruals and adjustments, necessary for a fair presentation of the results of operations for the quarters presented. You should read this financial information in conjunction with our consolidated financial statements and related notes included elsewhere in this Form 10-K. The results of operations for any quarter are not necessarily indicative of future results of operations.

(in thousands, except per share data)	Year 2013 Quarters Ended			
	March 31	June 30	September 30	December 31 (a)
Net revenue	\$ 36,679	\$ 31,897	\$ 36,128	\$ 50,759
Gross profit	15,750	13,314	14,693	21,551
Gain on sale of investment (a)		16,429	1,975	6,692
Income (loss) from continuing operations	(2,203)	8,112	(699)	(25,308)
Income (loss) from discontinued operations	1,981	(129)	1,004	(4,851)
Net income (loss)	(222)	7,983	305	(30,159)
Net income (loss) attributable to Gaiam, Inc.	(277)	7,848	120	(30,443)
Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted:				
From continuing operations	\$ (0.10)	\$ 0.36	\$ (0.03)	\$ (1.08)
From discontinued operations	0.09	(0.01)	0.04	(0.21)
Diluted net income (loss) per share attributable to Gaiam, Inc.	\$ (0.01)	\$ 0.35	\$ 0.01	\$ (1.29)
Weighted average shares outstanding-diluted	22,732	22,741	22,765	23,668

(in thousands, except per share data)	Year 2012 Quarters Ended			
	March 31	June 30	September 30 (b)	December 31
Net revenue	\$ 28,588	\$ 24,531	\$ 28,537	\$ 45,586
Gross profit	13,995	10,585	12,601	19,338
Loss from equity method investment	(696)	(944)	(15,940)	(830)
Loss from continuing operations	(1,977)	(4,756)	(11,923)	(569)
Income from discontinued operations	679	2,647	997	2,325
Net income (loss)	(1,298)	(2,109)	(10,926)	1,756
Net income (loss) attributable to Gaiam, Inc.	(1,219)	(2,053)	(11,157)	1,547
Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted:				
From continuing operations	\$ (0.08)	\$ (0.21)	\$ (0.53)	\$ (0.03)
From discontinued operations	0.03	0.12	0.04	0.10
Diluted net income (loss) per share attributable to Gaiam, Inc.	\$ (0.05)	\$ (0.09)	\$ (0.49)	\$ 0.07
Weighted average shares outstanding-diluted	22,698	22,702	22,704	22,706

- (a) We reported gains of \$16.4 million, \$2.0 million and \$6.7 million in the second, third and fourth quarters of 2013 on the sale of our Real Goods Solar stock, the carrying value for which had previously been reduced to zero through the recognition of our portion of RSOL's losses. We recorded a charge of \$11.0 million to exit certain businesses, to restructure certain operations, and a net loss of \$2.0 million after selling GVE and closing DRTV in the fourth quarter. We also recorded a \$23.2 million valuation allowance for our deferred tax

## Edgar Filing: GAIAM, INC - Form 10-K

assets in the fourth quarter of 2013.

- (b) During the quarter ended September 30, 2012, we recorded a noncash loss from our equity method investment in RSOL of \$15.9 million and related income tax benefits of \$5.7 million.

Quarterly fluctuations in our revenue and operating results are due to a number of factors, including changes in market conditions, the timing of new product introductions and mailings to customers, advertising, acquisitions (including costs of acquisitions and expenses related to integration of acquisitions), competition, pricing of products by vendors and expenditures on our systems and infrastructure. The impact on revenue and operating results due to the timing and extent of these factors can be significant. Our sales are also affected by seasonal influences. On an aggregate basis, we generate our strongest revenue in the fourth quarter due to increased holiday spending and retailer fitness purchases.

**Table of Contents****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. At December 31, 2013, our cash balance was \$32.2 million. Including our investment in Gaiam TV, we estimate that our capital expenditures will total approximately \$6.0 million for 2014.

On October 21, 2013, we consummated the sale of GVE, a wholly-owned subsidiary comprised of our non-branded entertainment media business, to CIDM for \$51.7 million, comprised of \$47.5 million in cash, 666,978 shares of CIDM's Class A common stock with an estimated fair value of approximately \$1.2 million, \$2 million of assigned accounts receivable, and a \$1 million assumed payment obligation. In addition, the sale consideration will also include a post-closing adjustment payable in cash on April 15, 2014 and based on the final closing net working capital of GVE, which the parties are currently negotiating.

Also on October 21, 2013, each of our subsidiaries Gaiam Americas, Inc., SPRI Products, Inc., GT Direct, Inc., and Gaiam Vivendi Entertainment (collectively the Borrowers) paid in full their outstanding balance owed to PNC Bank, N.A. (PNC), \$19,621,941 (inclusive of principal and interest and other fees), and terminated the underlying Revolving Credit and Security Agreement (PNC Credit Agreement), dated July 31, 2012, between the Borrowers and PNC. The PNC Credit Agreement had 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)	Years ended December 31,		
	2013	2012	2011
Net cash provided by (used in):			
Operating activities continuing operations	\$ (15,555)	\$ (1,106)	\$ 3,535
Operating activities discontinued operations (a)	(7,569)	17,582	1,705
Operating activities	(23,124)	16,476	5,240
Investing activities continuing operations	64,977	(4,699)	(9,358)
Investing activities discontinued operations		(13,491)	(1,435)
Investing activities	64,977	(18,190)	(10,793)
Financing activities continuing operations	777	(583)	(3,257)
Financing activities discontinued operations	(19,967)	(2,472)	(5,373)
Financing activities	(19,190)	(3,055)	(8,630)
Effects of exchange rates on cash	(292)	82	(45)
Net increase (decrease) in cash	\$ 22,371	\$ (4,687)	\$ (14,228)

## Edgar Filing: GAIAM, INC - Form 10-K

- (a) Net cash provided by operating activities for discontinued operations during 2012 includes approximately \$18.7 million of net cash provided by purchased Vivendi Entertainment working capital, which was used to partially fund the acquisition of Vivendi. Excluding the net cash flows from the purchased Vivendi Entertainment working capital, net cash used by operating activities for discontinued operations would have been zero million during 2012. Additionally, the net cash provided by operating activities for discontinued operations during 2012 does not include participations payments for Vivendi Entertainment sales during the fourth quarter of 2011 as we didn't acquire Vivendi Entertainment 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 operating activities for discontinued operations during 2013 includes certain participation payments that were due in December 2012, but not paid until January 2013.



## **Table of Contents**

### **Continuing Operations**

*Operating activities.* Our operating activities for continuing operations used net cash of \$15.6 million and used net cash of \$1.1 million during 2013 and 2012, respectively. The net cash used by operating activities for continuing operations during 2013 was primarily attributable to increased investment in Gaiam TV, decreased accounts payable of \$4.4 million, partially offset by decreased inventory of \$1.1 million. Our net cash used in operating activities for continuing operations during 2012 was primarily attributable to our net loss as adjusted by our noncash loss on equity investment of \$18.4 million, cash provided by increased accrued liabilities of \$9.5 million, offset by increased accounts receivable, other current assets, and decreased participations payable of \$3.6 million, \$6.2 million, and \$4.7 million, respectively.

*Investing activities.* Our investing activities for continuing operations generated net cash of \$65.0 million and used net cash of \$4.7 million during 2013 and 2012, respectively. The net cash provided by investing activities for continuing operations during 2013 was from the \$25.1 million net proceeds from the sale of the majority of our investment in Real Goods Solar, cash received of \$47.5 million for the sale of GVE, repayment on a loan made to Real Goods Solar of \$2.1 million, offset by cash used to acquire property and equipment to maintain normal operations for \$1.7 million and media content for \$1.7 million, and by cash used to acquire businesses of \$6.3 million, net of cash acquired. The net cash used in investing activities for continuing operations during 2012 was used primarily to acquire property and equipment for \$2.6 million and media content for \$1.1 million, to loan Real Goods Solar, net of interest received, \$0.8 million, and for our travel subsidiary's purchase of the noncontrolling interest of one of its businesses for \$0.1 million.

*Financing activities.* Our financing activities for continuing operations generated net cash of \$0.8 million and used net cash of \$0.6 million during 2013 and 2012, respectively. The net cash generated by financing activities for continuing operations during 2013 was from issuance of stock, net of tax benefits, for stock option exercises. The net cash used by financing activities for continuing operations during 2012 was used for the payment of a \$0.6 million dividend to our travel subsidiary's noncontrolling interest.

### **Discontinued Operations**

*Operating activities.* Our operating activities for discontinued operations used net cash of \$7.6 million and provided net cash of \$17.6 million during 2013 and 2012, respectively. Excluding the net cash flows from the purchased Vivendi Entertainment working capital of approximately \$18.7 million, net cash used in operating activities for discontinued operations would have been \$1.1 million during 2012. The net cash used in operating activities for discontinued operations during 2013 was primarily attributable to our net loss, offset by asset impairment and other non-cash expenses related to the sale of GVE and discontinuance of DRTV, and reduced by seasonal reductions in working capital during our ownership period of GVE. Our net cash provided by discontinued operations during 2012 was primarily attributable to our net income of \$6.6 million, approximately \$18.7 million of cash generated by working capital in Vivendi Entertainment, which was used to partially fund the acquisition of Vivendi, offset by an increase in working capital.

*Investing activities.* We had no investing activities in our discontinued operations during 2013. Our investing activities for discontinued operations used net cash of \$13.5 million during 2012. The net cash used in investing activities for discontinued operations during 2012 was used primarily for the \$13.4 million cash portion of the purchase price for Gaiam Vivendi Entertainment.

*Financing activities.* Our financing activities for discontinued operations used net cash of \$20.0 million and \$2.5 million during 2013 and 2012, respectively. The net cash used in financing activities for discontinued operations during 2013 was for the repayment of borrowings on our line of credit. The net cash used by financing activities for discontinued operations during 2012 was used for the repayment of a promissory note for \$18.7 million in connection with the acquisition of Gaiam Vivendi Entertainment, offset by net borrowings on a revolving line of credit of \$16.2 million, the funds from which were mainly used for the acquisition of Gaiam Vivendi Entertainment and related working capital needs.

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 or 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 commitments pursuant to operating lease agreements. The following table shows our commitments to make future payments under these agreements as of December 31, 2013:

(in thousands)	Total	< 1 year	1-3 years	3-5 years	> 5 years
Operating lease payments	\$ 3,285	\$ 1,848	\$ 1,437	\$	\$

**Off-Balance Sheet Arrangements**

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as special purpose entities or variable interest entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other limited purposes.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks, which include changes in U.S. interest rates and foreign exchange rates. We do not engage in financial transactions for trading or speculative purposes, but do have on occasion forward contracts for or investments in foreign currency, the gains and losses from which have been immaterial. In 2010, we acquired controlling financial interest in and, therefore, consolidated Gaiam PTY, an Australian based joint venture. Since Gaiam PTY's functional currency is the Australian dollar, this subsidiary exposes us to risk associated with foreign currency exchange rate fluctuations. However, we have determined that no material market risk exposure to our consolidated financial position, results from operations or cash flows existed as of December 31, 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.

**Table of Contents**

**Item 8. Financial Statements and Supplementary Data**  
**Index to Consolidated Financial Statements**

<u>Report of Independent Registered Public Accounting Firm</u>	31
Gaiam, Inc. Consolidated Financial Statements:	
<u>Consolidated Balance Sheets</u>	32
<u>Consolidated Statements of Operations</u>	33
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	34
<u>Consolidated Statement of Changes in Equity</u>	35
<u>Consolidated Statements of Cash Flows</u>	36
<u>Notes to Consolidated Financial Statements</u>	38
<b>Financial Statement Schedule:</b>	
<u>Schedule II Consolidated Valuation and Qualifying Accounts</u>	57

---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Gaiam, Inc.

Louisville, Colorado

We have audited the accompanying consolidated balance sheets of Gaiam, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three year period ended December 31, 2013. Our audits also included the consolidated financial statement schedule II for the years ended December 31, 2013, 2012, and 2011. We have also audited the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control-Integrated Framework* issued in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Criteria). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gaiam, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. In our opinion, the related consolidated financial statement schedule II for the years ended December 31, 2013, 2012, and 2011, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Also in our opinion, Gaiam, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO Criteria.

EKS&H LLLP

March 31, 2014

Denver, Colorado



**Table of Contents****GAIAM, INC.****Consolidated Balance Sheets**

(in thousands, except share and per share data)	December 31,	
	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash	\$ 32,229	\$ 9,858
Accounts receivable, net	30,066	21,978
Inventory, less allowances	20,275	21,252
Deferred advertising costs	311	819
Deferred tax assets		9,129
Advances	1,078	2,489
Other current assets	8,081	5,300
Current assets of discontinued operations	3,212	58,952
<b>Total current assets</b>	<b>95,252</b>	<b>129,777</b>
Property and equipment, net	22,540	23,544
Media library, net	5,211	10,441
Deferred tax assets		14,692
Goodwill	13,999	2,673
Other intangibles, net	1,155	190
Other assets	1,835	652
Noncurrent assets of discontinued operations	10	15,262
<b>Total assets</b>	<b>\$ 140,002</b>	<b>\$ 197,231</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11,697	\$ 16,109
Accrued liabilities	17,503	9,484
Participations payable	3,916	2,871
Current liabilities of discontinued operations	1,596	49,895
<b>Total current liabilities</b>	<b>34,712</b>	<b>78,359</b>
Commitments and contingencies		
Equity:		
Gaiam, Inc. shareholders' equity:		
Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 18,595,121 and 17,330,464 shares issued and outstanding at December 31, 2013 and 2012, respectively	2	2
Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 shares issued and outstanding at December 31, 2013 and 2012	1	1
Additional paid-in capital	167,875	159,614
Accumulated other comprehensive (expense) income	(33)	118
Accumulated deficit	(66,413)	(43,661)
<b>Total Gaiam, Inc. shareholders' equity</b>	<b>101,432</b>	<b>116,074</b>
Noncontrolling interest	3,858	2,798
<b>Total equity</b>	<b>105,290</b>	<b>118,872</b>
<b>Total liabilities and equity</b>	<b>\$ 140,002</b>	<b>\$ 197,231</b>

Edgar Filing: GAIAM, INC - Form 10-K

See accompanying notes to consolidated financial statements.



**Table of Contents****GAIAM, INC.****Consolidated Statements of Operations**

(in thousands, except per share data)	2013 (a)	2012 (a)	2011 (a)
<b>Consolidated Statements of Operations Data:</b>			
Net revenues	\$ 155,463	\$ 127,242	\$ 223,691
Cost of goods sold	90,155	70,723	144,835
Gross profit	65,308	56,519	78,856
<b>Expenses:</b>			
Selling and operating	64,657	56,292	73,525
Corporate, general and administration	11,249	10,400	11,828
Acquisition-related costs	76		2,393
Other general income and expense	10,967		22,456
Total expenses	86,949	66,692	110,202
Loss from operations	(21,641)	(10,173)	(31,346)
Interest and other income (expense)	2,421	(86)	(90)
Gain on sale of investment	25,096		
Loss from equity method investment		(18,410)	
Loss from deconsolidation of subsidiary			(4,550)
Income (loss) before income taxes	5,876	(28,669)	(35,986)
Income tax expense (benefit)	25,974	(9,444)	(10,713)
Net income (loss) from continuing operations	(20,098)	(19,225)	(25,273)
Income from discontinued operations, net of tax	(1,995)	6,648	3
Net income (loss)	(22,093)	(12,577)	(25,270)
Net (income) loss attributable to noncontrolling interest	(659)	(305)	398
Net income (loss) attributable to Gaiam, Inc.	\$ (22,752)	\$ (12,882)	\$ (24,872)
<b>Net income (loss) per share attributable to Gaiam, Inc. common shareholders basic:</b>			
From continuing operations	\$ (0.90)	\$ (0.86)	\$ (1.08)
From discontinued operations	(0.09)	0.29	0.00
Basic net income (loss) per share attributable to Gaiam, Inc.	\$ (0.99)	\$ (0.57)	\$ (1.08)
<b>Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted:</b>			
From continuing operations	\$ (0.89)	\$ (0.86)	\$ (1.08)
From discontinued operations	(0.09)	0.29	0.00
Diluted net income (loss) per share attributable to Gaiam, Inc.	\$ (0.98)	\$ (0.57)	\$ (1.08)
<b>Weighted-average shares outstanding:</b>			
Basic	22,972	22,703	23,126
Diluted	23,115	22,703	23,126

- (a) RSOL was deconsolidated and accounted for as an equity method investment from December 31, 2011 until May 28, 2013, when it became a cost method investment. Consequently, RSOL is reported as an equity method investment for the year ended December 31, 2012 and as a consolidated subsidiary for the year ended December 31, 2011.  
See Accompanying Notes to Consolidated Financial Statements.

**Table of Contents****GAIAM, INC.****Consolidated Statements of Comprehensive Income (Loss)**

(in thousands)	Years Ended December 31,		
	2013	2012	2011
Net income (loss)	\$ (22,093)	\$ (12,577)	\$ (25,270)
Accumulated other comprehensive income (loss):			
Foreign currency translation gain (loss), net of related tax	(292)	10	(2)
Unrealized gain on equity security, net of related tax	116		
Accumulated other comprehensive income (loss)	(176)	10	(2)
Comprehensive income (loss)	(22,269)	(12,567)	(25,272)
Less: comprehensive income (loss) attributable to the noncontrolling interest	634	310	(399)
Comprehensive income (loss) attributable to Gaiam, Inc	\$ (22,903)	\$ (12,877)	\$ (24,873)

See Accompanying Notes to Consolidated Financial Statements.

**Table of Contents****GAIAM, INC.****Consolidated Statement of Changes in Equity**

(in thousands, except shares)	Total Equity	Total Gaiam Equity	Gaiam, Inc. Shareholders					Common Stock Shares	Noncontrolling Interest
			Accumulated Deficit	Accumulated Other Comprehensive Income	Common Stock Amount	Additional Paid-in Capital			
Balance at December 31, 2010	\$ 168,762	\$ 151,820	\$ (5,907)	\$ 114	\$ 3	\$ 157,610	23,298,921	\$ 16,942	
Issuance of Gaiam, Inc. common stock and share-based compensation	1,081	1,081				1,081	26,926		
Repurchase of stock	(2,264)	(2,264)				(2,264)	(628,003)		
Deconsolidation of subsidiary	(31,394)	562				562		(31,956)	
Issuance of subsidiary common stock and share-based compensation	537	193				193		344	
Subsidiary's equity consideration in conjunction with an acquisition, net of taxes of \$877	20,794	1,716				1,716		19,078	
Subsidiary's repurchase of stock	(1,070)	(125)				(125)		(945)	
Comprehensive loss	(25,272)	(24,873)	(24,872)	(1)				(399)	
Balance at December 31, 2011	131,174	128,110	(30,779)	113	3	158,773	22,697,844	3,064	
Issuance of Gaiam, Inc. common stock and share-based compensation	1,011	1,011				1,011	32,620		
Adjustment due to subsidiary's acquisition of a noncontrolling interest, including taxes of \$16	(163)	(170)				(170)		7	
Subsidiary's dividend to noncontrolling interest	(583)							(583)	
Comprehensive income (loss)	(12,567)	(12,877)	(12,882)	5				310	
Balance at December 31, 2012	118,872	116,074	(43,661)	118	3	159,614	22,730,464	2,798	
Issuance of Gaiam, Inc. common stock in conjunction with an acquisition and share-based compensation	8,261	8,261				8,261	1,264,657		
Noncontrolling interest portion of subsidiary's business combinations	426							426	
Comprehensive income (loss)	(22,269)	(22,903)	(22,752)	(151)				634	
Balance at December 31, 2013	\$ 105,290	\$ 101,432	\$ (66,413)	\$ (33)	\$ 3	\$ 167,875	23,995,121	\$ 3,858	

See Accompanying Notes to Consolidated Financial Statements.

**Table of Contents****GAIAM, INC.****Consolidated Statements of Cash Flows**

(in thousands)	Years ended December 31,		
	2013 (a)	2012 (b)	2011
<b>Operating activities:</b>			
Net income (loss)	\$ (22,093)	\$ (12,577)	\$ (25,270)
Income (loss) from discontinued operations	1,995	(6,648)	(3)
Income (loss) from continuing operations	(20,098)	(19,225)	(25,273)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	2,301	2,107	2,779
Amortization	1,659	1,946	2,150
Share-based compensation expense	809	913	1,540
Deferred and stock option income tax expense (benefit)	23,861	(6,120)	(11,438)
(Gain) loss on translation of foreign currency	42	(76)	55
(Gain) on equity method investment	(25,096)	18,410	
Income from collection of note receivable	(2,300)		
Impairment loss and other expenses	9,194		22,456
Loss on deconsolidation of subsidiary			4,550
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable, net	(2,072)	(3,628)	2,785
Inventory, net	1,097	1,645	653
Deferred advertising costs	508	42	(263)
Advances	(44)	2,847	(934)
Other current assets	(2,843)	(6,228)	(3,309)
Accounts payable	(4,407)	1,463	5,243
Participations payable	1,045	(4,674)	4,209
Accrued liabilities	789	9,472	(1,668)
Net cash provided by (used in) operating activities continuing operations	(15,555)	(1,106)	3,535
Net cash provided by (used in) operating activities discontinued operations	(7,569)	17,582	1,705
Net cash provided by (used in) operating activities	(23,124)	16,476	5,240
<b>Investing activities:</b>			
Net proceeds from sale of investment	25,096		
Collection from (loan to) related party	2,100	(830)	
Purchase of property, equipment and media rights	(3,386)	(3,723)	(4,392)
Proceeds from sale of business	47,500		
Purchase of businesses	(6,333)	(146)	
Collection of note receivable			2,700
Cash from acquired business			3,416
Change in restricted cash			730
Deconsolidation of Real Goods Solar			(11,812)
Net cash provided by (used in) investing activities continuing operations	64,977	(4,699)	(9,358)
Net cash provided by (used in) investing activities discontinued operations		(13,491)	(1,435)
Net cash provided by (used in) investing activities	64,977	(18,190)	(10,793)
<b>Financing activities:</b>			
Net proceeds from issuance of stock and tax benefits from option exercises	777		77

Edgar Filing: GAIAM, INC - Form 10-K

Payment of dividends			(583)	
Repurchase of Class A common stock, including related costs				(2,264)
Subsidiary's repurchase of its Class A common stock, including related costs				(1,070)
Net cash provided by (used in) financing activities	continuing operations	777	(583)	(3,257)
Net cash provided by (used in) financing activities	discontinued operations	(19,967)	(2,472)	(5,373)
Net cash provided by (used in) financing activities		(19,190)	(3,055)	(8,630)

**Table of Contents****GAIAM, INC.****Consolidated Statements of Cash Flows (continued)**

(in thousands)	Years ended December 31,		
	2013	2012 (a)	2011
Effect of exchange rates on cash	(292)	82	(45)
Net increase (decrease) in cash	22,371	(4,687)	(14,228)
Cash at beginning of year	9,858	14,545	28,773
Cash at end of year	\$ 32,229	\$ 9,858	\$ 14,545
<b>Supplemental cash flow information:</b>			
Interest paid	\$ 442	\$ 468	\$ 195
Income taxes paid	577	673	531
Liabilities and debt assumed from acquisitions	337	14,277	21,709

- (a) Cash flows in 2013 include the \$25.0 million gain from the sale of RSOL stock, the sale of GVE and the closure of the DRTV Business Unit.
- (b) Net cash provided by operating activities for discontinued operations during 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 used by operating activities for discontinued operations would have been zero during 2012.

See Accompanying Notes to Consolidated Financial Statements.

---

## **Table of Contents**

### **Notes to Consolidated Financial Statements**

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

References in this report to we, us, our or Gaiam 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, and responsible media. We were incorporated under the laws of the State of Colorado on July 7, 1988.

We have prepared the accompanying 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.

#### **Discontinued Operations**

During 2013, we sold our non-branded entertainment media distribution operation and discontinued our DRTV operations. Accordingly, the assets and liabilities, operating results, and cash flows for these businesses are presented as discontinued operations, separate from our continuing operations, for all periods presented in these consolidated financial statements and footnotes, unless indicated otherwise. See Note 12. Discontinued Operations.

#### **Investment in Real Goods Solar Reporting Changes**

On December 31, 2011, we converted our Real Goods Solar Class B common shares, which had ten votes per share, to Real Goods Solar Class A common shares, which have one vote per share. As a result of this conversion, our voting ownership decreased to 37.5% and, thus, we no longer had financial control of or made decisions about resources to be allocated to this investee, but retained significant financial influence. Since Real Goods Solar was not deconsolidated until the end of 2011, our consolidated statements of operations and cash flows reflect Real Goods Solar on a consolidated basis for the year ended December 31, 2011, except for the removal of Real Goods Solar's cash balance at December 31, 2011. On May 28, 2013, we sold a portion of our investment in Real Goods Solar, reducing our voting ownership percentage to below 20%. Additionally, 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, and, consequently, going forward we no longer report our portion of RSOL's net earnings or losses each year. See Note 3. Related Party Transactions.

#### **2. Significant Accounting Policies**

No changes were made to our significant accounting policies during the year ended December 31, 2013.

We have evaluated events subsequent to December 31, 2013 and concluded that no material event has occurred which either would impact the results reflected in this report or our results going forward.

#### *Cash*

Cash represents on-demand accounts and letters of credit deposit funds with financial institutions that are denominated in U.S. dollars and foreign currencies. On December 31, 2013, we had letters of credit deposit funds reported in cash on our balance sheets of \$0.5 million. At each balance sheet date, cash on hand that is denominated in a foreign currency is adjusted to reflect the exchange rate that existed at the balance sheet date. The difference is reported as a gain or loss in our statement of operations each period. Historically, such gains or losses have been immaterial.

#### *Concentration of Risk and Allowances for Doubtful Accounts*

We have a concentration of credit risk in our accounts receivable because our top customer, Target, accounted for 43.6% and 54.5% of accounts receivable, net as of December 31, 2013 and 2012, respectively. This customer is a major retailer in the United States to which we made significant sales during the year-end holiday season.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We make estimates of the collectability of our accounts receivable by analyzing historical bad debts, specific customer creditworthiness, and current



## Edgar Filing: GAIAM, INC - Form 10-K

economic trends. The allowance for doubtful accounts was \$0.6 million and \$0.6 million as of December 31, 2013 and 2012, respectively. If the financial condition of our customers were to deteriorate such that their ability to make payments to us was impaired, additional allowances could be required.

## **Table of Contents**

### *Product Returns*

We record allowances for product returns to be received in future periods at the time we recognize the original sale. We base the amounts of the returns allowances upon historical experience and future expectations. Our allowance for product returns was \$1.6 million and \$2.6 million as of December 31, 2013 and 2012, respectively.

### *Inventory*

Inventory consists primarily of finished goods held for sale and is stated at the lower of cost (first-in, first-out method) or market. We identify the inventory items to be written down for obsolescence based on the item's current sales status and condition. We write down discontinued or slow moving inventories based on an estimate of the markdown to retail price needed to sell through our current stock level of the inventories. As of December 31, 2013 and 2012, we estimated obsolete or slow-moving inventory to be \$2.1 million and \$1.5 million, respectively.

### *Advertising Costs*

Deferred advertising costs relate to the preparation, printing, advertising and distribution of catalogs. We defer such costs for financial reporting purposes until the catalogs are distributed, and then we amortize these costs over succeeding periods on the basis of estimated direct relationship sales. We amortize our seasonal catalogs within six months. Forecasted sales are the principal factor we use in estimating the amortization rate. We expense other advertising and promotional costs as incurred. Amounts recorded as advertising expense were \$15.3 million, \$13.6 million, and \$27.2 million for the years ended December 31, 2013, 2012, and 2011, respectively, and we include these amounts in selling and operating expense.

We record sales discounts or other sales incentives as a reduction to revenue. We identify and record any cooperative advertising expenses we pay, which are for advertisements meeting the separable benefit and fair value tests, as part of selling and operating expense.

### *Property and Equipment*

We state property and equipment at cost less accumulated depreciation and amortization. We include in property and equipment the cost of internal-use software, including software used in connection with our websites. We expense all costs related to the development of internal-use software other than those incurred during the application development stage. We capitalize the costs we incur during the application development stage and amortize them over the estimated useful life of the software, which is typically three years. We compute depreciation of property and equipment on the straight-line method over estimated useful lives, generally three to forty-five years. We amortize leasehold and building improvements over the shorter of the estimated useful lives of the assets or the remaining term of the lease or remaining life of the building, respectively.

### *Investments*

We account for investments in equity securities that have readily determinable fair values that are not trading securities as available-for-sale securities. Unrealized changes in the fair value of an available-for-sale security are reported in accumulated other comprehensive income, net of tax, until disposed of or determined to be other-than-temporarily impaired, at which time the realized changes are reported in our statement of operations. At December 31, 2013, we had an equity investment with an estimated fair value of \$1.3 million, based on its public stock trading price on that date, reported in other assets on our consolidated balance sheet.

### *Purchase Accounting*

We account for the attainment of a controlling interest in a business using the acquisition method. In determining the estimated fair value of certain acquired assets and liabilities, we make assumptions based upon many different factors, such as historical and other relevant information and analyses performed by independent parties. Assumptions may be incomplete, and unanticipated events and circumstances may occur that could affect the validity of such assumptions, estimates, or actual results.

### *Media Library*

Our media library asset represents the estimated fair value of both video and digital rights acquired through either business combinations or separate purchases and our capitalized cost to produce media products, all of which we market to retailers and our direct customers. We have presented the media library net of accumulated amortization of approximately \$13.6 million and \$27.2 million at December 31, 2013 and 2012,

## Edgar Filing: GAIAM, INC - Form 10-K

respectively, and is amortized over the estimated useful life of the titles, which range from five to fifteen years. Additionally, during 2014 we anticipate incurring approximately \$3.0 million in royalties related to acquired and produced media content.

---

## **Table of Contents**

Capitalized media library production costs consist of costs incurred to produce the media content, net of accumulated amortization. We recognize these costs, as well as participation costs, as expenses on an individual title basis equal to the ratio that the current year's gross revenues bear to our estimate of total ultimate gross revenues from all sources to be earned over a maximum seven-year period. We state capitalized production costs at the lower of unamortized cost or estimated fair value on an individual title basis. We continually review revenue forecasts, based primarily on historical sales statistics, and revise these forecasts when warranted by changing conditions. When estimates of total revenues and other events or changes in circumstances indicate that a title has an estimated fair value that is less than its unamortized cost, we recognize an impairment loss in the current period for the amount by which the unamortized cost exceeds the title's estimated fair value.

During 2013, capitalized production cost for released titles was approximately \$1.5 million, and for those titles not yet released was \$0.1 million. Additionally, as of December 31, 2013, we estimate that approximately \$1.6 million or 42.5% of the unamortized costs for released titles will be amortized during 2014, and approximately 86.3% of the unamortized costs for released titles will be amortized within the next three years. Accumulated amortization for capitalized produced media content at December 31, 2013 and 2012 was approximately \$13.5 million and \$15.3 million, respectively. Amortization expense for capitalized produced media content for the years ended December 31, 2013, 2012 and 2011 was \$788 thousand, \$900 thousand and \$1.0 million, respectively.

Our acquired media rights have \$1.4 million of remaining unamortized costs as of December 31, 2013 that will be amortized on a straight-line basis over 12 to 84 months. Amortization expense for acquired media rights for the years ended December 31, 2013, 2012, and 2011 was \$553 thousand, \$772 thousand, and \$752 thousand, respectively. Based upon the acquired media titles and rights at December 31, 2013, we expect the annual amortization expense for the next five years to approximate \$150 thousand per annum.

Based on total media library costs at December 31, 2013 and assuming no subsequent impairment of the underlying assets or a material increase in the video productions or media acquired, we expect the amortization expense for the next five years to be approximately \$1.0 million per annum.

### *Goodwill and Other Intangibles*

Goodwill represents the excess of the purchase consideration over the estimated fair value of assets acquired less liabilities assumed in a business acquisition. Our other intangibles consist of customer related assets. We review goodwill for impairment annually or more frequently if impairment indicators arise on a goodwill reporting unit level. We have the option of first assessing qualitative factors to determine whether events and circumstances indicate that it is more likely than not that the fair value of a goodwill reporting unit is less than its carrying amount. If it is determined that the fair value for a goodwill reporting unit is more likely than not greater than the carrying amount for that goodwill reporting unit, then the two-step impairment test is unnecessary. If it is determined that the two-step impairment test is necessary, then for step one, we compare the estimated fair value of a goodwill reporting unit with its carrying amount, including goodwill. If the estimated fair value of a goodwill reporting unit exceeds its carrying amount, we consider the goodwill of the reporting unit not impaired. If the carrying amount of a goodwill reporting unit exceeds its estimated fair value, we perform the second step of the goodwill impairment test to measure the amount of impairment loss. We use either a comparable market approach or a traditional present value method to test for potential impairment. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment at many points during the analysis. Application of alternative assumptions and definitions could yield significantly different results.

**Table of Contents**

The following table sets forth the changes in goodwill for the period December 31, 2011 through December 31, 2013 by segment.

(in thousands)	Direct to Consumer Segment	Business Segment	Total
Balance at December 31, 2011 and 2012	\$ 2,673	\$	\$ 2,673
Acquisitions (a)	11,326		11,326
Balance at December 31, 2013	\$ 13,999	\$	\$ 13,999

- (a) The estimated purchase price and fair value of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the closing date. We believe that information provides a reasonable basis for estimating the consideration transferred and the fair values of the assets acquired and liabilities assumed, but we are waiting for additional information necessary to finalize the amounts and identify separable intangibles. Therefore, the provisional purchase price allocations are subject to change and such changes could be significant.

The following table represents our other intangibles subject to amortization by major class as of December 31, 2013 and 2012.

(in thousands)	As of December 31,	
	2013	2012
<b>Customer related:</b>		
Gross carrying amount	\$ 1,818	\$ 649
Accumulated amortization	(743)	(463)
	\$ 1,075	\$ 186
<b>Marketing related:</b>		
Gross carrying amount	\$ 656	\$ 576
Accumulated amortization	(576)	(572)
	\$ 80	\$ 4

The amortization periods range from 24 to 84 months. Amortization expense for the years ended December 31, 2013, 2012, and 2011 was \$321 thousand, \$228 thousand, and \$454 thousand, respectively. Based on the December 31, 2013 balance of other intangibles, we estimate amortization expense to be \$493 thousand for 2014, \$467 thousand for 2015, \$195 thousand for 2016, and zero thereafter.

*Long-Lived Assets*

We evaluate the carrying value of long-lived assets held and used, other than goodwill, when events or changes in circumstances indicate the carrying value may not be recoverable. We consider the carrying value of a long-lived asset impaired when the total projected undiscounted cash flows from such asset are separately identifiable and are less than the carrying value. We recognize a loss based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. We determine the estimated fair value primarily using the projected cash flows from the asset discounted at a rate commensurate with the risk involved.

*Participations Payable*

Participations payable represents amounts owed to talent involved with our media productions based on royalty or distribution agreements. Certain agreements include minimum royalty payments. All amounts due under such agreements are accrued at the time the related revenue is recognized.

*Income Taxes*

We provide for income taxes pursuant to the liability method. The liability method requires recognition of deferred income taxes based on temporary differences between financial reporting and income tax bases of assets and liabilities, using current enacted income tax rates and regulations. These differences will result in taxable income or deductions in future years when the reported amount of the asset or liability is recovered or settled, respectively. Considerable judgment is required in determining when these events may occur and whether recovery of an asset, including the utilization of a net operating loss or other carryforward prior to its expiration, is more likely than not.

*Revenue*

Revenue primarily consists of sales of products, media licensing, and media distribution. We recognize revenue from the sale of products and the licensing of media when the following four basic criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and (4) collectability is reasonably assured. We recognize distribution fees from our media distribution arrangements on a net revenue basis. For these media distribution sales, we do not take title to the related product sold as the inventory is owned by the studios or content producers and sold by us under distribution agent agreements. We recognize amounts billed to customers for postage and handling as revenue at the same time we recognize the revenue arising from the product sale. We present revenue net of taxes collected from customers.

**Table of Contents**

Prior to 2012, we also recognized revenue from Real Goods Solar's energy integration fixed price contracts. For energy system installations of less than 100 kilowatts, we recognized revenue when the installation was substantially complete, determined based on departure from the job site following completion of the installation or passing of building inspection, while for energy system installations equal to or greater than 100 kilowatts, we recognized revenue on a percentage-of-completion basis, with the extent of progress towards completion measured by the cost to cost method.

*Share-Based Compensation*

We recognize compensation cost for share-based awards based on the estimated fair value of the award on date of grant. We measure compensation cost at the grant date based on the estimated fair value of the award and recognize compensation cost upon the probable attainment of a specified performance condition or over a service period. We use the Black-Scholes option valuation model to estimate the fair value of the award. In estimating this fair value, we use certain assumptions, as disclosed in Note 8. Share-Based Compensation, consisting of the expected life of the option, risk-free interest rate, dividend yield, and volatility. The use of a different estimate for any one of these components could have a material impact on the amount of calculated compensation expense.

*Defined Contribution Plan*

We have adopted a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code of 1986, as amended ( Internal Revenue Code ), which covers substantially all employees. Eligible employees may contribute amounts to the plan, via payroll withholding, subject to certain limitations. The 401(k) plan permits, but does not require, us to make additional matching contributions to the 401(k) plan on behalf of all participants in the 401(k) plan. We match 50% of an employee's contribution, up to an annual maximum matching contribution of \$1,500. We made matching contributions to the 401(k) plan of \$0.3 million, \$0.2 million, and \$0.2 million in each of the years ended December 31, 2013, 2012, and 2011, respectively.

*Foreign Currency Translation*

Our foreign subsidiaries use their local currency as their functional currency. We translate assets and liabilities into U.S. dollars at exchange rates in effect at the balance sheet date. We translate income and expense accounts at the average monthly exchange rates during the year. We record resulting translation adjustments, net of income taxes, as a separate component of accumulated other comprehensive income.

*Comprehensive Income (Loss)*

Our comprehensive income (loss) is comprised of our net income (loss), noncontrolling interest net income (loss), foreign currency translation adjustments, net of tax, and unrealized changes in the fair value of an equity security, net of tax.

The tax effects allocated to our accumulated other comprehensive income (loss) components were as follows:

(in thousands)	For the Years Ended December 31,		
	2013	2012	2011
Before-tax amount	\$ (262)	\$ 14	\$ (3)
Tax expense (benefit)	(86)	4	(1)
Net-of-tax amount	\$ (176)	\$ 10	\$ (2)

*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 common shares outstanding during the period. We compute diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders using the weighted average number of common shares and common stock equivalents outstanding during the period. We excluded weighted average common stock equivalents of 1,439,748, 1,387,000 and 1,306,000 from the computation of diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders for 2013, 2012 and 2011, respectively, because their effect was antidilutive.





**Table of Contents**

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)	For the Years Ended December 31,		
	2013	2012	2011
Net income (loss) attributable to Gaiam, Inc. common shareholders:			
Income (loss) from continuing operations	\$ (20,757)	\$ (19,530)	\$ (24,875)
Income from discontinued operations	(1,995)	6,648	3
Net income (loss) attributable to Gaiam, Inc.	\$ (22,752)	\$ (12,882)	\$ (24,872)
Weighted average shares for basic net income (loss) per share	22,972	22,703	23,126
Effect of dilutive securities:			
Weighted average of common stock and stock options	143		
Weighted average shares for diluted net income (loss) per share	23,115	22,703	23,126
Net income (loss) per share attributable to Gaiam, Inc. common shareholders basic:			
Income (loss) from continuing operations	\$ (0.90)	\$ (0.86)	\$ (1.08)
Income from discontinued operations	(0.09)	0.29	0.00
Basic net income (loss) per share attributable to Gaiam, Inc.	\$ (0.99)	\$ (0.57)	\$ (1.08)
Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted:			
Income (loss) from continuing operations	\$ (0.89)	\$ (0.86)	\$ (1.08)
Income from discontinued operations	(0.09)	0.29	0.00
Diluted net income (loss) per share attributable to Gaiam, Inc.	\$ (0.98)	\$ (0.57)	\$ (1.08)

**3. Related Party Transactions**

Under our Intercorporate Services Agreement with Real Goods Solar, we had until September 30, 2013 provided services to RSOL in the ordinary course of business, for which we at least quarterly billed to and collected from Real Goods Solar. This agreement was terminated on December 19, 2013. We billed zero, \$0.3 million, and \$0.4 million under the Intercorporate Services Agreement for the years 2013, 2012, and 2011, respectively.

As specified by our Tax Sharing Agreement with Real Goods Solar, to the extent Real Goods Solar becomes entitled to utilize certain loss carryforwards relating to periods prior to its initial public offering, it will distribute to us the tax effect (estimated to be 34% for federal income tax purposes) of the amount of such tax loss carryforwards so utilized. These net operating loss carryforwards expire beginning in 2018 if not utilized. Due to our step acquisitions of Real Goods Solar, it experienced ownership changes as defined in Section 382 of the Internal Revenue Code. Accordingly, its use of the net operating loss carryforwards is limited by annual limitations described in Sections 382 and 383 of the Internal Revenue Code. As of December 31, 2013, \$4.4 million of these net operating loss carryforwards remained available for current and future utilization, meaning that Real Goods Solar's potential future payments to us, which would be made over a period of several years, could therefore aggregate to approximately \$1.6 million based on current tax rates. Based on Real Goods Solar's establishment of a valuation allowance for all its net deferred tax assets at December 31, 2012, we established a valuation allowance, by charging loss from equity method investment in 2012, for our entire \$1.6 million deferred tax asset related to our Tax Sharing Agreement with Real Goods Solar.

On December 19, 2011, we entered into an Industrial Building Lease Agreement with Real Goods Solar for office space located in our owned building in Colorado. The five year lease commenced on January 1, 2012 and has a monthly payment of approximately \$22,000 plus common area maintenance and tax expenses.

**Table of Contents**

During 2013, we sold the majority of our investment in Real Goods Solar for total net proceeds of approximately \$25 million. Following the sale of the first portion in May 2013, our voting ownership percentage declined to below 20% and 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 income or loss each period.

At December 31, 2012, we had two loans receivable from Real Goods Solar totaling \$2.7 million, bearing interest at an annual rate of 10%. During 2012, Real Goods Solar recorded an impairment and, through the equity method accounting for our investment in RSOL, the net carrying value of these loans was reduced to zero as of December 31, 2012. On March 27, 2013, the maturity dates for these loans were extended, with \$1.0 million due April 26, 2014 and \$1.7 million due April 30, 2014. On April 23, 2013, we entered into a conversion agreement with Real Goods Solar whereby the \$1.7 million loan 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. On November 5, 2013, we collected \$2.1 million in cash from Real Goods Solar and \$0.2 million of tenant improvements in settlement of the two outstanding loans made. The \$2.3 million gain resulting from the collection of these loans are reported in Interest and other income on our consolidated statement of operations for the year ended December 31, 2013.

As of December 31, 2013, we owned 836,989 shares of Real Goods Solar's Class A common stock.

**4. Property and Equipment**

Property and equipment, stated at lower of cost or estimated fair value, consists of the following as of December 31:

(in thousands)	2013	2012
Land	\$ 5,603	\$ 5,582
Buildings	16,637	16,366
Furniture, fixtures and equipment	6,839	6,213
Leasehold improvements	1,622	1,633
Website development costs and other software	9,919	10,015
Studios, computer and telephone equipment	9,182	9,292
Warehouse and distribution equipment	1,765	1,765
	51,567	50,866
Accumulated depreciation and amortization	(29,027)	(27,322)
	\$ 22,540	\$ 23,544

**Table of Contents****5. Accrued Liabilities**

Accrued liabilities consist of the following as of December 31:

(in thousands)	2013	2012
Accrued compensation	\$ 5,500	\$ 2,031
Customer deposits	8,478	6,086
Other accrued liabilities	3,525	1,367
	\$ 17,503	\$ 9,484

Accrued compensation at December 31, 2013 included severance and termination benefits of \$2.5 million.

**6. Commitments and Contingencies****Operating Leases**

We lease office and warehouse space through operating leases. Some of the leases have renewal clauses, which range from 3 to 6 years.

The following schedule represents the annual future minimum payments under these commitments, as of December 31, 2013:

(in thousands)	Operating
2014	\$ 1,848
2015	1,112
2016	325
2017	
Total minimum lease payments	\$ 3,285

As a result of our divestiture of our non-branded entertainment media operations and our discontinuance of DRTV operations, in the fourth quarter of 2013 we closed our office in New York, NY and recognized an expense representing the cumulative remaining obligation under that lease agreement, net of expected recoveries from sublease agreements. The previous table reflects the future minimum payments we are obligated to make on this lease agreement.

We incurred rent expense of \$1.0 million, \$1.0 million and \$1.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**Risks and Uncertainties**

We are subject to risks and uncertainties in the normal course of our business, including legal proceedings; governmental regulation, such as the interpretation of tax and labor laws; and consumer sensitivity to changes in general economic conditions. We have accrued for probable and estimatable costs that may be incurred with respect to identified risks and uncertainties based upon the facts and circumstances currently available to us. Due to uncertainties in the estimating process, actual costs could vary from those accruals.

**7. Equity**

During 2013, we issued, under our 2009 Long-Term Incentive Plan, 49,187 and 160,470 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.

## Edgar Filing: GAIAM, INC - Form 10-K

On October 11, 2013, we issued 15,759 shares of our Class A common stock under restricted stock award agreements of the same date to certain of our former board directors. See Footnote 8. Share-Based Compensation. On October 31, 2013, we issued 1,055,000 shares of our Class A common stock into escrow as part of the consideration transferred for an acquisition.

During 2012, we issued 32,620 shares of our Class A common stock under our 2009 Long-Term Incentive Plan to certain of our independent directors, in lieu of cash compensation, for services rendered in 2012. We recorded these shares 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. Additionally, our adventure travel subsidiary, which is 51.4% owned by us, paid its shareholders dividends of \$0.7 million from additional paid-in capital and \$0.5 million from retained earnings, and, as a result, the noncontrolling interests on our consolidated balance sheet at December 31, 2012 was decreased by \$0.6 million.

**Table of Contents**

During 2011, we issued 11,518 of our Class A common shares under our 2009 Long-Term Incentive Plan to our independent directors, in lieu of cash compensation, for services rendered in 2011, and issued 15,200 of our Class A common shares upon exercise of options under our 1999 Long-Term Incentive Plan. We value the shares issued to our independent directors at estimated fair value based on the closing price of our stock on the date the shares are issued, which by policy is the last trading day of each quarter in which the services were rendered. Additionally, we repurchased 628,003 of our Class A common shares for a total cost of \$2.3 million. We recorded this repurchase of our shares in accordance with the cost method of accounting for treasury stock. Because we have not decided the ultimate disposition of the re-acquired shares, their cost is reflected in our consolidated balance sheet at December 31, 2011 as a reduction to additional paid-in capital.

On December 31, 2011, we converted our Real Goods Solar Class B common shares, which had ten votes per share, to Real Goods Solar Class A common shares, which have one vote per share. As a result of this conversion, our voting ownership decreased to 37.5% and, thus, we no longer had financial control of Real Goods Solar, but retained significant financial influence. Accordingly, we deconsolidated Real Goods Solar from our equity by removing the noncontrolling interest in Real Goods Solar at December 31, 2011 and increasing additional paid-in capital for a portion of the adjustment to a deferred tax liability related to this investment.

During May 2013, as a result of a decrease in our voting ownership to less than 20% and the resignation of our chairman from his position as Chairman of the Board for Real Goods Solar, we changed the accounting for our investment in Real Goods Solar from the equity to cost method. Thus, our consolidated balance sheet data at December 31, 2013 and our consolidated statement of operations data for 2013 reports Real Goods Solar as a cost method investment.

The following schedule reflects the effect of changes in Gaiam, Inc.'s ownership interest in its subsidiaries on Gaiam, Inc.'s equity for the years ended December 31, 2012 and 2011, respectively. There were no changes to Gaiam, Inc.'s equity during 2013 as a result of converting our accounting for our investment in Real Goods Solar from the equity to cost method.

(in thousands, except share data)	For the Year Ended December 31,	
	2012	2011
Net income (loss) attributable to Gaiam, Inc.	\$ (12,882)	\$ (24,872)
Transfers from the noncontrolling interest:		
Decrease in Gaiam, Inc.'s paid-in capital for its subsidiary's acquisition of a noncontrolling interest, including related taxes of \$16	(170)	
Increase in Gaiam, Inc.'s paid-in capital for the issuance of 29,408 Real Goods Solar Class A common shares in conjunction with nonemployee director fees, and for employee share-based compensation		193
Increase in Gaiam, Inc.'s paid-in capital for the issuance of 8,700,000 Real Goods Solar Class A common shares in conjunction with its acquisition of Alteris		1,716
Decrease in Gaiam, Inc.'s paid-in capital for Real Goods Solar's repurchase of 379,400 of its Class A common shares		(125)
Increase in Gaiam, Inc.'s paid-in capital in conjunction with the remeasurement of deferred tax liabilities related to our equity investment in Real Goods Solar upon deconsolidation		562
Change from the net income (loss) attributable to Gaiam, Inc. and transfers from the noncontrolling interest	\$ (13,052)	\$ (22,526)

As of December 31, 2012, we had the following Class A common shares reserved for future issuance:

Conversion of Class B common shares	5,400,000
Awards under the 2009 and 1999 Long-Term Incentive Plans:	
Stock options outstanding	1,662,450
Total shares reserved for future issuance	7,062,450

Each holder of our Class A common shares is entitled to one vote for each share held on all matters submitted to a vote of shareholders. Each of our Class B common shares is entitled to ten votes on all matters submitted to a vote of shareholders. There are no cumulative voting rights. All holders of our Class A common shares and our Class B common shares vote as a single class on all matters that are submitted to the shareholders for a vote. Shareholders may consent to an action in writing and without a meeting under certain circumstances. Jirka Rysavy, our chairman,

## Edgar Filing: GAIAM, INC - Form 10-K

holds 100% of our 5,400,000 outstanding shares of class B common stock and also owns 648,682 shares of Class A common stock. Consequently, our chairman holds approximately 75% of our voting stock and thus is able to exert substantial influence over us and to control matters requiring approval by our shareholders, including the election of directors, increasing our authorized capital stock, or a merger or sale of substantially all of our assets. As a result of Mr. Rysavy's control of us, no change of control can occur without Mr. Rysavy's consent.

## Table of Contents

Our Class A common shares and our Class B common shares are entitled to receive dividends, if any, as may be declared by the board of directors out of legally available funds. In the event of a liquidation, dissolution or winding up of our Company, our Class A common shares and our Class B common shares are entitled to share ratably in our assets remaining after the payment of all of our debts and other liabilities. Holders of our Class A common shares and our Class B common shares have no preemptive, subscription or redemption rights, and there are no redemption or sinking fund provisions applicable to our Class A common shares and our Class B common shares.

Our Class B common shares may not be transferred unless converted into our Class A common shares, other than certain transfers to affiliates, family members, and charitable organizations. Our Class B common shares are convertible one-for-one into our Class A common shares, at the option of the holder of the Class B common shares.

## 8. Share-Based Compensation

During 2009, we adopted the Gaiam, Inc. 2009 Long-Term Incentive Plan (the Plan). The purpose of the Plan is to advance our interests and those of our shareholders by providing incentives to certain persons who contribute significantly to our strategic and long-term performance objectives and growth. An aggregate of not more than 3 million of our Class A common shares, subject to certain adjustments, may be issued under the Plan, and the Plan terminates no later than April 23, 2019. The authority to grant new options under our 1999 Long-Term Incentive Plan expired on June 1, 2009. We have generally granted options under both of our incentive plans with an exercise price equal to the closing market price of our stock at the date of the grant and the options normally vest and become exercisable at 2% per month for the 50 months beginning in the eleventh month after date of grant. We have recognized the compensation expense related to share-based payment awards on a straight-line basis over the requisite service periods of the awards, which are generally five years for employee options and two years for Board members' options. Commencing with options granted during 2011, we extended the expiration date for grants from seven to ten years from the date of grant.

The determination of the estimated fair value of share-based payment awards on the date of grant using the Black-Scholes option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. We derive the expected terms from the historical behavior of participant groupings. We base expected volatilities on the historically realized volatility of our stock over the expected term. Our use of historically realized volatilities is based upon the expectation that future volatility over the expected term is not likely to differ from historical results. We base the risk-free interest rate used in the option valuation model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options. Our dividend yield assumes no annual cash dividends. In accordance with FASB share-based compensation guidance, we are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We primarily use historical data by participant groupings to estimate option forfeitures and record share-based compensation expense only for those awards that are expected to vest.

The following are the variables we used in the Black-Scholes option pricing model to determine the estimated grant date fair value for options granted under our 2009 and 1999 Long-Term Incentive Plans for each of the years presented:

	2013	2012	2011
Expected volatility	57% - 61%	59%	58% - 61%
Weighted-average volatility	58%	59%	59%
Expected dividends	%	%	2.8% - 4.2%
Expected term (in years)	5.1 - 7.8	7.1	7.1 - 9.3
Risk-free rate	1.33% - 2.32%	1.36% - 1.61%	1.50% - 3.13%

The table below presents a summary of option activity under our 2009 and 1999 Long-Term Incentive Plans as of December 31, 2013, and changes during the year then ended:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2013	1,406,450	\$ 5.61		
Granted	527,500	5.30		

Edgar Filing: GAIAM, INC - Form 10-K

Exercised	(160,470)	4.84		
Cancelled or forfeited	(111,030)	4.63		
Outstanding at December 31, 2013	1,662,450	\$ 5.65	5.2	\$ 2,049,536
Exercisable at December 31, 2013	912,390	\$ 5.84	2.4	\$ 1,104,611



**Table of Contents**

On November 8, 2013, for 3 former board members, we extended the exercisability date of their outstanding options to the lesser of October 10, 2014 or the expiration date of their grants. These modifications resulted in total incremental share-based compensation cost of \$0.1 million that was immediately recognizable. On March 5, 2012, for options previously granted under our 1999 Long-Term Incentive Plan that were scheduled to expire within the next two years, we extended the original expiration dates by two years. As a result, grants to 7 employees were modified and these modifications resulted in total incremental share-based compensation cost of approximately \$0.1 million that was immediately recognizable. During 2009, for options previously granted under our 1999 Long-Term Incentive Plan to 49 employees, we reset the exercise price to \$5.00 per share. The options continued to vest over their remaining original vesting periods. These 2009 repricing modifications resulted in total incremental share-based compensation cost of approximately \$0.2 million, recognizable over 2009 through 2013.

We issue new shares upon the exercise of options. We received \$0.8 million in cash from stock options exercised during 2013. No options were exercised during 2012. The weighted-average grant-date fair value of options granted during the years 2013, 2012, and 2011 was \$3.14, \$2.39, and \$2.32, respectively. The total intrinsic value of options exercised during 2013 and 2011 was \$0.1 million each year. The total fair value of shares vested was \$0.6 million during 2013 and \$0.8 million during each of 2012 and 2011.

On October 11, 2013, we issued 15,759 shares of our Class A common stock under restricted stock award agreements of the same date to certain of our former board members. The estimated fair value of these restricted stock awards was \$0.1 million and was based on the closing market price of our stock on October 11, 2013. These restricted stock awards vest 100% on April 10, 2014.

Our share-based compensation cost charged against income was \$0.8 million, \$1.0 million, and \$1.6 million during 2013, 2012, and 2011, respectively, and is shown in corporate, general and administration expenses. The portion of our share-based compensation expense related to Real Goods Solar was \$0.5 million for 2011. The total income tax benefit recognized for share-based compensation was \$0.3 million, \$0.4 million, and \$0.6 million for 2013, 2012, and 2011, respectively. As of December 31, 2013, there was \$1.4 million of unrecognized cost related to nonvested share-based compensation arrangements granted under our 2009 and 1999 Long-Term Incentive Plans. We expect that cost to be recognized over a weighted-average period of 3.78 years.

**9. Asset Impairments and Exit Activity Costs**

During 2013, as a result of the reorganization and re-focus of our continuing businesses following the discontinuation of our non-branded entertainment media distribution and direct response television marketing operations, we impaired \$4.4 million of media libraries and capitalized production costs, \$1.5 million of advances, and \$1.3 million of property, plant, and equipment, net of accumulated depreciation, and other investments. These noncash impairments reduced the carrying value of assets for our business and direct to consumer segments by \$5.1 million and \$2.0 million, respectively. We estimated the fair value of each impaired asset category using a traditional present value technique, relying upon various sources of information for our assumptions, such as estimated future sales, internal budgets and projections, and judgment about the related product's future earnings potential (level 3 of the fair value hierarchy). We also recorded termination benefits of \$2.5 million related to the termination of certain employees associated with our restructuring and future retirement benefits for one of our executive officers. These asset impairment and termination benefit charges were recorded in other general expense on our consolidated statement of operations for the year ended December 31, 2013. Also included in other general expenses on our consolidated statements of operations are \$1.3 million of expenses related to a brand study, recruiting for a new CEO, and other operating expenses that management believes are unique in 2013.

At December 31, 2013, the accrual liability associated with termination benefits consisted of the following:

Charges	\$ 2,472
Payments made	(298)
Accrued liability	\$ 2,174

The \$2.2 million accrual balance at December 31, 2013 is expected to be paid \$1.3 million in 2014, \$ 0.5 million in 2015 and \$0.4 million in 2015.

**Table of Contents****10. Income Taxes**

Our provision for income tax expense (benefit) for continuing operations is comprised of the following:

(in thousands)	For the Years Ended December 31,		
	2013	2012	2011
<b>Current:</b>			
Federal	\$ 536	\$ (4,463)	\$ 426
State	(68)	(293)	129
International	223	196	236
	691	(4,560)	791
<b>Deferred:</b>			
Federal	23,619	(4,552)	(10,735)
State	1,591	(328)	(763)
International	73	(4)	(6)
	25,283	(4,884)	(11,504)
	\$ 25,974	\$ (9,444)	\$ (10,713)

Variations from the federal statutory rate are as follows:

(in thousands)	2013	2012	2011
Expected federal income tax expense (benefit) at statutory rate of 34%	\$ 2,003	\$ (4,348)	\$ (12,235)
Effect of permanent goodwill impairment and worthless stock differences			7,668
Effect of 2008 State NOL s and option forfeitures	189		
Effect of permanent enhanced charitable donation differences		(31)	(25)
Effect of permanent other differences	269	34	96
Effect of change in financial statement carrying value of investment		(5,077)	(5,534)
State income tax expense (benefit), net of federal benefit	67	(196)	(872)
Federal tax credits			(164)
Establishment of valuation allowance on net deferred tax assets	23,153		
Other	337	209	406
Effect of differences between U.S. taxation and foreign taxation	(44)	(35)	(53)
Income tax expense (benefit)	\$ 25,974	\$ (9,444)	\$ (10,713)

**Table of Contents**

Deferred income taxes reflect net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the net accumulated deferred income tax assets as of December 31, 2013 and 2012 are as follows:

(in thousands)	December 31,	
	2013	2012
Deferred tax assets (liabilities):		
Current:		
Provision for doubtful accounts	\$ 171	\$ 245
Inventory-related expense	950	699
Accrued liabilities	3,341	3,888
Net operating loss carryforward	820	3,617
Worthless Stock Deduction	3,055	
Impaired loans to affiliate		959
Prepaid and deferred catalog costs	(103)	(250)
Other	35	(29)
Exit Activity Accruals	1,603	
Total current deferred tax assets	9,872	9,129
Valuation allowance	(9,872)	
Total current deferred tax assets, net of valuation allowance	\$	\$ 9,129
Non-current:		
Depreciation and amortization	\$ (825)	\$ 288
Section 181 qualified production expense	(850)	(4,579)
Net operating loss carryforward	15,297	13,737
Charitable carryforward	1,567	1,681
Loss (gain) from change in financial statement carrying value of investment, net	55	228
Gain from foreign business acquisition	(347)	(347)
Impairment of intangibles		5,412
Tax credits	920	899
Other	69	42
Total non-current deferred tax assets	15,886	17,361
Valuation allowance	(15,886)	(2,669)
Total non-current deferred tax assets, net of valuation allowance		14,692
Total net deferred tax assets	\$	\$ 23,821

The sources of income (loss) before income taxes are as follows:

(in thousands)	2013	2012	2011
Domestic	\$ 5,503	\$ (29,162)	\$ (34,977)
International	373	493	(1,009)
	\$ 5,876	\$ (28,669)	\$ (35,986)

On December 31, 2011, we adjusted the financial statement carrying value of our equity method investment in Real Goods Solar to its estimated fair value due to deconsolidation. Accordingly, we also adjusted the related deferred tax liability for the temporary difference in basis for this

## Edgar Filing: GAIAM, INC - Form 10-K

investment, thereby recognizing during 2011 an income tax benefit of \$7.1 million and a credit to additional paid-in capital of \$0.6 million.

Income tax benefit for 2012 includes \$6.0 million due to the reducing of a deferred tax liability related to the carrying value of our equity method investment in Real Goods Solar and the reduction of the carrying value of our loans to Real Goods Solar. See Note 3. Related Party Transactions.

Certain of our subsidiaries, namely those for which we own less than 80% of their shares and voting rights and/or are foreign entities, file tax returns separately from Gaiam's consolidated tax group. At December 31, 2013, we had made a provision for U.S. federal and state income taxes on approximately \$0.3 million of undistributed foreign earnings, which are not expected to remain outside of the U.S. indefinitely. Deferred tax liabilities have been established for future taxes on distribution of foreign earnings in the form of dividends or otherwise, in order to derive, for financial statement purposes, the U.S. income taxes (net of tax on foreign tax credits), state income taxes, and withholding taxes payable to the various foreign countries.

**Table of Contents**

Periodically, we perform assessments of the realization of our net deferred tax assets considering all available evidence, both positive and negative. A significant piece of evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2013. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth. On the basis of this assessment, we recorded a charge of \$23.2 million to income tax expense to record a valuation allowance against our deferred tax assets as of December 31, 2013. As income is generated in future periods, the Company expects to reverse the valuation allowance and utilize the deferred tax assets.

Based on Real Goods Solar's establishment of a valuation allowance for all its net deferred tax assets at December 31, 2012, we established a valuation allowance, by charging loss from equity method investment, for our entire \$1.6 million deferred tax asset related to our Tax Sharing Agreement with Real Goods Solar. See Note 3. Related Party Transactions. We concluded that no other changes to our existing valuation allowances were necessary. We expect our net deferred tax assets, less the valuation allowances, at December 31, 2013 to be fully recoverable through the reversal of taxable temporary differences and normal business activities in future years.

We realized \$0.5 million in tax deductions and \$0.7 million in tax benefits recorded to additional paid-in capital as a result of the exercise of stock options for the year ended December 31, 2013. No stock options were exercised during 2012. Also, we charged \$0.9 million to additional paid-in capital during the year ended December 31, 2011 as a result of adjustments to a deferred tax liability caused by temporary changes in the financial statement carrying value of our investment in Real Goods Solar.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We measure the tax benefits recognized in the consolidated financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax law and regulations change over time and may result in changes to our subjective assumptions and judgments which can materially affect amounts recognized in our consolidated balance sheets and consolidated statements of operations. The result of our assessment of our uncertain tax positions did not have a material impact on our consolidated financial statements. Our federal and state tax returns for all years after 2009 are subject to future examination by tax authorities for all our tax jurisdictions. We recognize interest and penalties related to income tax matters in interest and other income (expense) and corporate, general and administration expenses, respectively.

**Table of Contents****11. Segment and Geographic Information****Segment Information**

During 2013, we sold our non-branded entertainment media distribution operation (previously part of our business segment) and discontinued our DRTV operations (previously part of our direct to consumer segment). Accordingly, we have restated the below segment information to present these two businesses as discontinued operations, separate from our continuing segments.

Real Goods Solar was deconsolidated on December 31, 2011, and, thus, the segment information below reports RSOL as an equity method investment for 2012 and as a consolidated subsidiary for 2011. RSOL became a cost method investment during 2013.

We now manage our business and aggregate our operational and financial information in accordance with two reportable segments. The direct to consumer segment contains e-commerce, catalog, retail store and digital subscription channels; and the business segment comprises retailer, distribution, and corporate account channels.

Although we are able to track revenue by sales channel, the management, allocation of resources and analysis and reporting of expenses is 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 was as follows:

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Net revenue:			
Direct to consumer	\$ 52,051	\$ 42,852	\$ 45,041
Business	103,412	84,390	69,393
Net revenue excluding Solar (RSOL)	155,463	127,242	114,434
Solar			109,257
Consolidated net revenue	155,463	127,242	223,691
Contribution margin (loss):			
Direct to consumer	(22,754)(b)	(17,308)(b)	(6,983)
Business	1,113 (b)	7,135	(22,087)(a)
Contribution margin (loss) excluding Solar (RSOL)	(21,641)	(10,173)	(29,070)
Solar			(2,276)
Consolidated contribution margin (loss)	(21,641)	(10,173)	(31,346)
Reconciliation of contribution margin (loss) to net income (loss) attributable to Gaiam, Inc.:			
Interest and other income (expense)	2,421	(86)	(90)
Gain on sale of investment in RSOL	25,096		
Loss from equity method investment in RSOL		(18,410)	
Loss on deconsolidation of RSOL			(4,550)
Income tax expense (benefit)	25,974	(9,444)	(10,713)
Income from discontinued operations	(1,995)	6,648	3
Net (income) loss attributable to noncontrolling interest	(659)	(305)	398
Net income (loss) attributable to Gaiam, Inc.	\$ (22,752)	\$ (12,882)	\$ (24,872)

## Edgar Filing: GAIAM, INC - Form 10-K

- (a) During 2011, we recognized a noncash goodwill impairment charge of \$22.5 million in our business segment.
- (b) Includes investments in our digital subscription businesses of \$8.5 million and \$5.9 million for the years 2013 and 2012, respectively. Additionally, during 2013 we recognized impairment and severance charges of \$11.0 million.

**Table of Contents**

The following is a reconciliation of reportable segments' assets to our consolidated total assets. Other unallocated corporate amounts are comprised of cash, current and deferred income taxes, and property and equipment.

(in thousands)	As of December 31,		
	2013	2012	2011
<b>Total assets - Continuing Operations:</b>			
Direct to consumer	\$ 39,803	\$ 30,500	\$ 17,506
Business	64,094	63,313	53,725
Other unallocated corporate amounts	32,883	29,204	62,792
	\$ 136,780	\$ 123,017	\$ 134,023
<b>Total assets - Discontinued Operations:</b>			
Direct to consumer	\$ 1,646	\$ 7,925	\$ 3,470
Business	1,576	66,289	25,797
	\$ 3,222	\$ 74,214	\$ 29,267
	\$ 140,002	\$ 197,231	\$ 163,290

**Major Customer**

Sales to our largest customer accounted for approximately 32.1%, 22.9%, and 15.8% of total net revenue during 2013, 2012 and 2011, respectively, and are reported in our business segment.

**Geographic Information**

We sell and distribute essentially the same products in the United States and several foreign countries. The major geographic territories are the U.S., Canada, Australia and the U.K., and are based on the location of the customer. The following represents geographical data for our operations as of and for the years ended December 31, 2013, 2012 and 2011:

(in thousands)	2013	2012	2011
<b>Revenue:</b>			
United States	\$ 150,274	\$ 122,183	\$ 218,741
International	5,189	5,059	4,950
	\$ 155,463	\$ 127,242	\$ 223,691
<b>Long-Lived Assets:</b>			
United States	\$ 29,072	\$ 33,827	\$ 34,871
International	246	626	370
	\$ 29,318	\$ 34,453	\$ 35,241

(in thousands)	As of December 31,		
	2013	2012	2011
<b>Components of Long-Lived Assets (a):</b>			
Property and equipment, net	\$ 22,540	\$ 23,544	\$ 23,634
Media Library, net	5,211	10,441	10,884
Other Intangibles, net	1,155	190	569
Other assets	412	278	154



\$ 29,318    \$ 34,453    \$ 35,241

- (a) Excludes other non-current assets (non-current deferred tax assets, net, goodwill, investments, notes receivable, security deposits and noncurrent assets from discontinued operations) of \$15,432, \$33,001, and \$31,897 for 2013, 2012, and 2011, respectively.

**Table of Contents****12. Discontinued Operations**

On October 21, 2013, we consummated the sale of GVE Newco, LLC ( GVE ), a wholly-owned subsidiary of ours representing our non-branded entertainment media business, to Cinedigm Corp. ( CIDM ) for \$51.7 million, comprised of \$47.5 million in cash, 666,978 shares of CIDM s Class A common stock with an estimated fair value as of transaction consummation of approximately \$1.2 million, \$2 million of assigned accounts receivable, and a \$1 million assumed payment obligation. In addition, the sale consideration will also include a post-closing adjustment payable in cash on April 15, 2014 and based on the final closing net working capital of GVE, which the parties are currently negotiating. During the fourth quarter of 2013, we discontinued our DRTV operations. In connection with these discontinued operations, we recognized certain exit activity and asset impairment charges. Accordingly, the assets and liabilities, operating results, and cash flows for these businesses, and their related exit activity and asset impairment charges, are presented as discontinued operations in our financial statements and footnotes presented herein.

The major components of assets and liabilities of our discontinued operations were as follows:

(in thousands)	December 31,	
	2013	2012
<b>Current assets:</b>		
Accounts receivable, net	\$ 2,168	\$ 35,618
Inventory, less allowances	818	8,588
Deferred advertising costs		3,506
Advances		10,708
Other current assets	226	532
<b>Total current assets</b>	<b>3,212</b>	<b>58,952</b>
Property and equipment, net		453
Media library, net		2,649
Goodwill		6,731
Other intangibles, net		5,418
Other assets	10	11
<b>Total assets</b>	<b>\$ 3,222</b>	<b>\$ 74,214</b>
<b>Current liabilities:</b>		
Line of credit	\$	\$ 16,231
Accounts payable	1,121	7,920
Participations payable		569
Accrued liabilities	475	25,175
<b>Total current liabilities</b>	<b>\$ 1,596</b>	<b>\$ 49,895</b>

With regards to our DRTV discontinued operations, we commenced wind-down activities in December, 2013, and we expect to fully cease and sell its operations and assets no later than December 31, 2014. The expected proceed from the disposition of this business unit are not expected to be material.

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 ), for the use and benefit of GVE s operations, which were subsequently discontinued. Borrowings were secured by a pledge of the Borrowers assets. The PNC Credit Agreement provided 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 was due and payable on the earlier of July 30, 2015 or upon the termination of the PNC Credit Agreement.

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. All interest charges

under the PNC Credit Agreement have been allocated to discontinued operations.

**Table of Contents**

The income from discontinued operations amounts as reported on our consolidated statements of operations were comprised of the following amounts:

(in thousands)	Years Ended December 31,		
	2013	2012	2011
Net revenue	\$ 53,539	\$ 75,232	\$ 51,082
Income from operations before income taxes	2,386	10,417	59
Exit activity and asset impairment charges before income taxes (a)	(1,776)		
Income tax expense	(209)	(3,769)	(56)
Income from operations of discontinued operations	401	6,648	3
Gain (loss) on disposal of discontinued operations:			
Gain on sale of GVE before income taxes	5,622		
Loss on abandonment of DRTV before income taxes (b)	(9,481)		
Income tax expense	1,463		
Gain from disposal of discontinued operations	(2,396)		
Income from discontinued operations.	\$ (1,995)	\$ 6,648	\$ 3

- (a) In direct conjunction with the discontinuing of our GVE and DRTV operations, during 2013 we recognized exit activity charges of \$0.8 million for employee termination benefits and \$1.0 million for non-cancellable facility leases, of which \$0.3 million had been paid as of December 31, 2013, the balance of these amounts is expected to be paid in 2014
- (b) As a direct result of the discontinuance of our GVE and DRTV operations, we recognized impairment charges of \$2.5 million for inventory, \$3.8 million for deferred advertising costs, \$0.8 million for advances, \$0.4 million for property and equipment, \$2.1 million for media library, \$6.7 million for goodwill, and \$3.5 million for other intangibles.

**13. Quarterly Results of Operations (Unaudited)**

The following tables set forth our unaudited results of operations for each of the quarters in 2013 and 2012. During 2013, we sold our non-branded entertainment media distribution operations and discontinued our DRTV operations. We now report these businesses as discontinued operations, and, accordingly, we have reclassified their results of operations for all periods presented to reflect them as such. In our opinion, this unaudited financial information includes all adjustments, consisting solely of normal recurring accruals and adjustments, necessary for a fair presentation of the results of operations for the quarters presented.

(in thousands, except per share data)	Year 2013 Quarters Ended			
	March 31	June 30	September 30	December 31 (a)
Net revenue	\$ 36,679	\$ 31,897	\$ 36,128	\$ 50,759
Gross profit	15,750	13,314	14,693	21,551
Gain on sale of investment		16,429	1,975	6,692
Income (loss) from continuing operations	(2,203)	8,112	(699)	(25,308)
Income from discontinued operations	1,981	(129)	1,004	(4,851)
Net income (loss)	(222)	7,983	305	(30,159)
Net income (loss) attributable to Gaiam, Inc.	(277)	7,848	120	(30,443)
Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted:				
From continuing operations	\$ (0.10)	\$ 0.36	\$ (0.03)	\$ (1.08)
From discontinued operations	0.09	(0.01)	0.04	(0.21)

Edgar Filing: GAIAM, INC - Form 10-K

Diluted net income (loss) per share attributable to Gaiam, Inc.	\$ (0.01)	\$ 0.35	\$ 0.01	\$ (1.29)
Weighted average shares outstanding-diluted	22,732	22,741	22,765	23,668

**Table of Contents**

(in thousands, except per share data)	Year 2012 Quarters Ended			
	March 31	June 30	September 30 (b)	December 31
Net revenue	\$ 28,589	\$ 24,531	\$ 28,537	\$ 45,586
Gross profit	13,995	10,585	12,601	19,338
Loss from equity method investment	(696)	(944)	(15,940)	(830)
Loss from continuing operations	(1,977)	(4,756)	(11,923)	(569)
Income from discontinued operations	679	2,647	997	2,325
Net income (loss)	(1,298)	(2,109)	(10,926)	1,756
Net income (loss) attributable to Gaiam, Inc.	(1,219)	(2,053)	(11,157)	1,547
Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted:				
From continuing operations	\$ (0.08)	\$ (0.21)	\$ (0.53)	\$ (0.03)
From discontinued operations	0.03	0.12	0.04	0.10
<b>Diluted net income (loss) per share attributable to Gaiam, Inc.</b>	<b>\$ (0.05)</b>	<b>\$ (0.09)</b>	<b>\$ (0.49)</b>	<b>\$ 0.07</b>
Weighted average shares outstanding-diluted	22,698	22,702	22,704	22,706

- (a) We reported gains of \$16.4 million, \$2.0 million and \$6.7 million in the second, third and fourth quarters of 2013 on the sale of our Real Goods Solar stock, the carrying value for which had previously been reduced to zero through the recognition of our portion of RSOL's net losses. We recorded a charge of \$11.0 million to exit certain businesses, to restructure certain operations, and a net loss of \$2.0 million after selling GVE and closing DRTV in the fourth quarter. We also recorded a \$23.2 million valuation allowance for our deferred tax assets in the fourth quarter of 2013.
- (b) During the quarter ended September 30, 2012, we recorded a noncash loss from our equity method investment in RSOL of \$15.9 million and related income tax benefits of \$5.7 million.

**Table of Contents****GAIAM, INC.****Financial Statement Schedule II****Consolidated Valuation and Qualifying Accounts**

(in thousands)	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions (a)	Balance at End of Year
Allowance for Doubtful Accounts:				
2013	\$ 611	\$ 564	\$ 619	\$ 556
2012	\$ 678	\$ 622	\$ 689	\$ 611
2011	\$ 888	\$ 545	\$ 755	\$ 678
Allowance for Product Returns:				
2013	\$ 2,579	\$ 27,707	\$ 28,710	\$ 1,576
2012	\$ 1,823	\$ 16,119	\$ 15,363	\$ 2,579
2011	\$ 861	\$ 22,704	\$ 21,742	\$ 1,823

- (a) The 2011 deduction amount for the allowance for doubtful accounts includes \$0.5 million related to the deconsolidation of Real Goods Solar. See Note 3. Related Party Transactions.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. 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 December 31, 2013, our management has concluded that those disclosure controls and procedures are effective.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013 using the criteria set forth in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission in its *Internal Control-Integrated Framework*. Based on that

## Edgar Filing: GAIAM, INC - Form 10-K

assessment, our management concluded that, as of December 31, 2013, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by EKS&H LLLP, an independent registered public accounting firm, as stated in their report, which is included herein.

### **Item 9B. Other Information**

Not applicable.



**Table of Contents****PART III****Item 10. Directors, Executive Officers and Corporate Governance**  
**DIRECTORS**

The following table sets forth the names and ages of our current directors:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Jirka Rysavy	59	Director and Chairman
Lynn Powers	64	Director and Chief Executive Officer
James Argyropoulos	69	Director
Kristen Frank	48	Director
Chris Jaeb	54	Director
Wendy Schoppert	47	Director
Paul Sutherland	58	Director

Each director serves for a one-year term. Biographical information for each director, including the years in which they began serving as directors and their positions with Gaiam, are set forth below.

**Jirka Rysavy** age 59 Founder and Chairman. He has been Chairman since our inception and served as our full-time Chief Executive Officer from December 1998 to March 2009. In 1986, Mr. Rysavy founded Corporate Express, Inc., which, under his leadership, grew to become a Fortune 500 company supplying office and computer products and services. He was its Chairman and Chief Executive Officer until 1998. Mr. Rysavy also founded and served as Chairman and Chief Executive Officer of Crystal Market, a health foods market, which was sold in 1987 to become the concept and first Wild Oats Markets store. Mr. Rysavy was also Chairman of Real Goods Solar, Inc., an entity Gaiam founded in 1999 and of which Gaiam owns a minority stake of the issued and outstanding capital stock. Mr. Rysavy resigned from the board of Real Goods Solar, Inc. in June 2013.

The board believes that Mr. Rysavy brings to the board significant senior leadership, strategic focus, business development, sales and marketing and international experience from his past business experience in senior management roles and as a founder of several successful businesses.

**Lynn Powers** age 64 Chief Executive Officer and a director. Ms. Powers has been a director since February 1996 and our Chief Executive Officer since March 2009. She served as our President from February 1996 until November 2010. From February 1996 until September 2001, she was our Chief Operating Officer, and from September 2001 until March 2009 she was our Chief Executive Officer of North American operations. From 1992 to 1996, she was Chief Executive Officer of La Scelta, an importer of natural fiber clothing products. Before that, Ms. Powers was Senior Vice President Marketing/Strategic Development and Vice President Merchandising of Miller's Outpost, a specialty retailer.

As our Chief Executive Officer and former President, the board believes that Ms. Powers brings to the board significant senior leadership, management, operational, financial, and brand management experience.

**James Argyropoulos** age 69 Director since May 2002. Mr. Argyropoulos has been primarily engaged as a private investor over the last fifteen years. In 1972, Mr. Argyropoulos founded, and thereafter served as Chairman and Chief Executive Officer of, The Cherokee Group Inc., a shoe manufacturing and apparel business.

The board believes that Mr. Argyropoulos brings to the board significant senior leadership, management, financial, and brand management experience from his past business experience with The Cherokee Group and other companies.

**Paul Sutherland** age 58 Director since June 2012. Mr. Sutherland has worked in the investment and financial advisory business since 1975. He is founder and President of Financial & Investment Management Group, Ltd. ( FIMgroup ), a registered investment adviser that manages investment portfolios on a discretionary basis for individuals, trusts, foundations and retirement plans that he founded in 1984. As the Chief Investment Officer for FIMgroup, he has been managing values driven, sustainably oriented, global total return, growth and income investment portfolios for more than 25 years. FIMgroup is the beneficial owner of approximately 9.59% of our outstanding shares of Class A Common Stock.

## Edgar Filing: GAIAM, INC - Form 10-K

Mr. Sutherland served on the board of directors of the Utopia Funds, a registered investment company, between December 2005 and March 2009. Mr. Sutherland is Chairman and a founding board member of the Utopia Foundation and is author of various books including *Virtues of Wealth* and the AMA guide to Financial Planning. Mr. Sutherland is also owner of Spirituality and Health Media LLC, the publisher of Spirituality & Health magazine, and Yen Yoga and Fitness LLC, the largest yoga, spinning and fitness studio in northern Michigan.

## Table of Contents

In addition to Mr. Sutherland's significant senior leadership, global investment, business, entrepreneurial and financial experience, the board believes that he brings to the board a broad understanding of the business aspects of the sustainable health and wellbeing movement and market in which Gaiaam operates.

**Kristin Frank** age 48 Director since October 2013. Ms. Frank has a long career at Viacom, a global entertainment company, where she currently serves as Executive Vice President of Viacom Music and Logo's Connected Content division, with general management responsibilities for all non-linear brand properties for MTV, VH1, CMT and LOGO. Previously, from 2009 to 2012, Ms. Frank served as General Manager for MTV and VH1 Digital where she was instrumental to MTV's growth to 140 million fans on Facebook. From 2005 to 2009 she served as Chief Operating Officer at LOGO TV. From 1996 to 2005 she has held multiple positions at Viacom Media Networks including serving as Senior Vice President, Multiplatform Distribution at LOGO TV as well as Regional Vice President, MTV Networks Content Distribution and Marketing Group overseeing distribution strategy for MTV, VH1, CMT, VH1 Classic, MTV 2 and Logo.

The board believes that Ms. Frank brings to the board significant experience with management, operations, branding, digital content delivery and social media.

**Chris Jaeb** age 54 Director since October 2013. Since 2007, Mr. Jaeb serves as the Chief Executive Officer of Common Ground Kauai, a sustainable resource center he founded. In 2006 he co-founded and till 2010 served as the President of Malama Kauai, a Hawaii based nonprofit organization. In 1995, Mr. Jaeb co-founded AudioNet (previously Cameron Broadcasting Systems), an Internet-based aggregator of digital media, which changed its name to Broadcast.com prior to its initial public offering in 1998. In 1999 Broadcast.com was sold to Yahoo for \$5.4 billion. In 1995 Mr. Jaeb founded eAds, the first fee per click advertising company on the Internet.

In addition to Mr. Jaeb's entrepreneurial experience, the board believes that he brings to the board a strong understanding of Internet marketing operations and the business aspect of sustainable living.

**Wendy Schoppert** age 47 Director since October 2013. Since June 2011, Ms. Schoppert has been the Executive Vice President and Chief Financial Officer of Select Comfort, the manufacturer, marketer, retailer and servicer of the Sleep Number® line of beds. Since joining Select Comfort in 2005, she has also served as its Chief Information Officer, interim Chief Marketing Officer and Senior Vice President of International and New Channel Development. Prior to joining Select Comfort, Ms. Schoppert led US Bank's Private Asset Management team and served as Head of Product, Marketing & Corporate Development for the bank's asset management division. She began her career in the airline industry, serving in various finance, strategic, investor relations and general management leadership positions at American Airlines, Northwest Airlines and America West Airlines. Ms. Schoppert serves on Cornell University's President's Council of Cornell Women.

The board believes that Ms. Schoppert brings to the board vast experience in brand development and management, as well as significant senior financial leadership and expertise with the oversight of financial reporting and disclosure for public companies.

## **EXECUTIVE OFFICERS**

The following table sets forth the names, ages and titles of our current executive officers:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Jirka Rysavy	59	Chairman and a Director
Lynn Powers	64	Chief Executive Officer and a Director
John Jackson	57	Vice President of Corporate Development and Secretary
Stephen J. Thomas	50	Chief Financial Officer and Vice President

Our executive officers are elected annually by our board of directors. Mr. Rysavy and Ms. Powers have been employed by our company for more than the past five years. Biographical information about Mr. Rysavy and Ms. Powers is included herein under the heading **DIRECTORS**.

**John Jackson** age 57 Mr. Jackson has served as Gaiaam's Vice President of Corporate Development since June 2006 and was appointed Secretary in March 2007. Prior to joining Gaiaam, Mr. Jackson served as the Chief Executive Officer for Alliance Management, LLC, a firm that he founded in 1999 that provided strategic alliance advisory services to domestic and international middle market business concerns.

---

## **Table of Contents**

**Stephen J. Thomas** age 50 Mr. Thomas became Gaiam's Chief Financial Officer in November 2010. He previously served as Gaiam's Chief Accounting Officer from November 2009 until November 2010 and as Controller of Gaiam from August 2006 until November 2009. From 2005 until 2006, Mr. Thomas was Chief Financial Officer of Digitally Unique Corporation, an online retailer of consumer electronics, and from 2003 until 2005 Mr. Thomas was Controller of American Coin Merchandising, Inc., a public company acquired by Coinstar in 2004 for approximately \$235 million. Mr. Thomas has held numerous financial and accounting positions throughout his career that began with Arthur Andersen LLP in 1986.

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors, officers and persons who own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission reports of ownership and changes in ownership of our Class A Common Stock and other equity securities of our company. Our directors, officers and 10% holders are required by Securities and Exchange Commission regulations to furnish us with copies of all of the Section 16(a) reports they file.

Based solely upon a review of the copies of the forms furnished to us and the representations made by the reporting persons to us, the following persons failed to file on a timely basis the following reports required by Section 16(a): Paul Sutherland filed one late report related to two transactions involving a transfer by Mr. Sutherland to a trust controlled by him.

### **CODE OF ETHICS**

We have adopted a Code of Ethics applicable to our employees, including our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. We have posted a copy of our Code of Ethics on the corporate section of our Internet website at <http://corporate.gaiam.com>. Our full board of directors must approve in advance any waivers of the Code of Ethics. We will post any amendments to or waivers from our Code of Ethics that apply to our executive officers and directors on the Code of Ethics section of our Internet website located at <http://corporate.gaiam.com>.

### **AUDIT COMMITTEE**

Our board of directors has a separately-designated standing audit committee. We have adopted a written charter for the audit committee, which can be found in the investors' section of our website at: [www.gaiam.com](http://www.gaiam.com). Our audit committee consists of Messrs. Sutherland and Argyropoulos and Ms. Schoppert, and each member of the audit committee is independent within the meaning of rules of the NASDAQ Global Market. Ms. Schoppert serves as chairperson of the audit committee and our board has determined that she is an audit committee financial expert, as defined in Item 407(d)(5)(ii) of Regulation S-K. Our audit committee is responsible for the appointment, compensation and oversight of our auditor and for approval of any non-audit services provided by the auditor. Our audit committee also oversees (a) management's maintenance of the reliability and integrity of our accounting policies and financial reporting and disclosure practices; (b) management's establishment and maintenance of processes to assure that an adequate system of internal control over financial reporting is functioning; and (c) management's establishment and maintenance of processes to assure our compliance with all laws, regulations and company policies relating to financial reporting.

## **Item 11. Executive Compensation COMPENSATION DISCUSSION AND ANALYSIS**

### **Overview of Our Compensation Program and Philosophy**

Our compensation program is intended to meet three principal objectives: (1) attract, reward and retain qualified, energetic officers and other key employees; (2) motivate these individuals to achieve short-term and long-term corporate goals that enhance shareholder value; and (3) support our corporate values by promoting internal equity and external competitiveness.

### **Our corporate values: personal development, health and wellness, and social and environmental responsibility.**

Our executive compensation program is overseen and administered by the compensation committee of our board of directors, which is comprised entirely of independent directors as determined in accordance with various NASDAQ, Securities and Exchange Commission and Internal Revenue Code rules. Our compensation committee operates under a written charter adopted by our board and is empowered to review

## Edgar Filing: GAIAM, INC - Form 10-K

and approve the annual compensation for our current executive officers: Mr. Rysavy, Ms. Powers, Mr. Jackson, and Mr. Thomas. A copy of the charter is available in the investors section of our website at: [www.gaiam.com](http://www.gaiam.com).

---

## **Table of Contents**

The principal objectives that guide our compensation committee in assessing our executive and other compensation programs include the proper allocation between long-term compensation, current cash compensation, and short-term bonus compensation. Other considerations include our business objectives, our fiduciary and corporate responsibilities (including internal considerations of fairness and affordability), competitive practices and trends, general economic conditions and regulatory requirements.

In determining the particular elements of compensation that will be used to implement our overall compensation objectives, our compensation committee takes into consideration a number of factors related to our performance, such as our earnings per share, profitability, revenue growth, and business-unit-specific operational and financial performance, as well as the competitive environment for our business. Stock price performance has not been a factor in determining annual compensation because the price of our common stock is subject to a variety of factors outside of our control. Our compensation committee may, when appropriate as determined on an annual basis, identify individual performance goals for executive and other officers, which goals may play a significant role in determining such officer's incentive compensation for that year and which may be taken into consideration in setting base salary for the next year.

From time to time, our compensation committee meets with our Chairman, Jirka Rysavy, and our Chief Executive Officer, Lynn Powers, and/or other executives to obtain recommendations with respect to our compensation programs, practices and packages for executives, other employees and directors. Our management makes recommendations to our compensation committee on the base salary, bonus targets and equity compensation for the executive team and other employees. Our compensation committee considers, but is not bound by and does not always accept, management's recommendations with respect to executive compensation.

Our compensation committee has also in the past received input from an independent compensation consultant prior to finalizing determinations on material aspects of our compensation programs, practices and packages, and it expects to do so again from time to time.

Mr. Rysavy attends some of our compensation committee's meetings, but our compensation committee also holds executive sessions not attended by any members of management or non-independent directors. Our compensation committee discusses Mr. Rysavy's and Ms. Powers' compensation packages with each of them, but makes decisions with respect to their compensation without them present. Our compensation committee has the ultimate authority to make decisions with respect to the compensation of our named executive officers, but may, if it chooses, delegate any of its responsibilities to subcommittees. Our compensation committee has delegated to the administrative committee of our board of directors, comprised of Mr. Rysavy and Ms. Powers, the authority to grant long-term incentive awards to employees at or below the level of vice president under guidelines set by our compensation committee.

### **Elements of Our Compensation Program**

Our compensation committee believes that compensation paid to executive officers and other members of our senior management should be closely aligned with our performance on both a short-term and a long-term basis, and that such compensation should assist us in attracting and retaining talented persons who are committed to our mission and critical to our long-term success. To that end, our compensation committee believes that the compensation packages for executive officers should consist of three principal components:

**Base Salary.** Base salaries for executive officers are reviewed on an annual basis and at the time of promotion or other change in responsibilities. Starting salary levels and increases in salary are based on subjective evaluation of such factors as the level of responsibility, individual performance, market value of the officer's skill set, and relative salary differences within our company for different job levels. Consideration of the same factors, and general economic conditions, may also result in the reduction of an officer's base salary.

**Annual Incentive Bonus.** Annual incentive bonuses are awarded in the discretion of our compensation committee and generally granted based on a percentage of each executive officer's base salary. Our executive officers' annual incentive bonus potentials are expected to range from approximately 30% to 100% of each executive officer's base salary, depending upon his or her position. After the end of the year, our compensation committee reviews our business unit and overall financial performance and each executive officer's individual performance in determining whether such executive officer should be awarded a bonus.

**Long-Term Incentive Compensation.** We may grant long-term, performance-based compensation to executive officers and other employees in the form of stock option awards granted pursuant to our 2009 Long-Term Incentive Plan.



---

## **Table of Contents**

Our compensation committee believes in the importance of equity ownership for all executive officers and a broader-based segment of our work force, for purposes of economic incentive, key employee retention and alignment of employees' interests with those of shareholders. Our compensation committee believes that both our 1999 Long-Term Incentive Plan and our 2009 Long-Term Incentive Plan provide valuable flexibility to achieve a balance between providing equity-based compensation for employees and creating and maintaining long-term shareholder value. At the time of the potential hire of an executive officer candidate, our compensation committee will make its determination regarding long-term incentive compensation awards based upon prevailing compensation levels in the market for the individual's position. Thereafter, such determinations will be based upon the executive officer's past and expected future contributions to our business.

Stock option grants are typically made when a new executive officer is hired, and in determining the size of stock option grants, our compensation committee bases its determinations on such subjective considerations as the individual's position within management, experience, market value of the executive's skill set, and historical grant amounts to similarly positioned executives of our company. Our policy is that the exercise price of an option grant shall be equal to or greater than the closing price of the Class A Common Stock on the date of grant and, accordingly, will have value only if the market price of the Class A Common Stock increases after that date. The stock options granted pursuant to both the 1999 Long-Term Incentive Plan and 2009 Long-Term Incentive Plan generally vest at 2% per month during the 11th through 60th month after grant. In October 2013, stock options were granted to John Jackson and Steve Thomas as part of the Long Term Incentive Plan. These options are discussed in the Grants of Plan Based Awards disclosure below. We have selected these elements because each is considered useful and/or necessary to meet one or more of the principal objectives of our compensation policy. For instance, base salary and bonus target percentages are set with the goal of attracting employees and adequately compensating and rewarding them on a day-to-day basis for the time spent and the services they perform, while our equity programs are geared toward providing an incentive and reward for the achievement of long-term business objectives and retaining key talent. We believe that these elements of compensation, when combined, are effective, and will continue to be effective, in achieving the objectives of our compensation program.

Our compensation committee reviews our compensation program on an annual basis. In setting compensation levels for a particular executive, our compensation committee takes into consideration the proposed compensation package as a whole and each element individually, but does not apply any specific formula in doing so. While the importance of one compensation element to another may vary among executive officers, our compensation committee attempts to correlate the overall compensation package to each executive officer's past and expected future contributions to our business. We currently do not have any employment or severance agreements with our executive officers.

### **Consideration of Say-on-Pay Vote Results**

At the 2011 annual meeting of shareholders, our shareholders approved, on an advisory basis, the compensation of our named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission. Our compensation committee reviewed and considered the final vote results for that resolution, and we have not made any changes to our executive compensation policies or decisions as a result of the vote. Further, at the 2011 annual meeting of shareholders, an overwhelming number of our shareholders voted, on an advisory basis, for holding an advisory vote to approve named executive officer compensation every three years. That was also our board of directors' recommendation on that matter for the 2011 annual meeting. Accordingly, our board of directors has determined that Gaiam will hold the next advisory vote to approve named executive officer compensation at our 2014 Annual Meeting of Shareholders.

### **Risk Assessments**

With respect to risk related to compensation matters, our compensation committee considers, in establishing and reviewing our executive compensation program, whether the program encourages unnecessary or excessive risk taking and has concluded that it does not. Our executive officers' base salaries are fixed in amount and thus do not encourage risk-taking. Bonuses are capped and are tied to overall business unit and corporate performance. A portion of compensation provided to the executive officers has in the past been in the form of stock options that are important to help further align executives' interests with those of our shareholders. Our compensation committee believes that these awards do not encourage unnecessary or excessive risk-taking, as the value of the stock options fluctuate dollar for dollar with our stock price and do not represent significant downward/upward risk and reward. In October 2013, stock options were granted to John Jackson and Steve Thomas as part of the Long Term Incentive Plan. These options are discussed in the Grants of Plan Based Awards disclosure below.



**Table of Contents****SUMMARY COMPENSATION TABLE**

The following table includes information concerning compensation for each of the last three years for our named executive officers.

Name and Principal Position	Year	Salary (3)	Bonus (3)	Option Awards (4)	All Other Compensation (5)	Total
Jirka Rysavy <i>Chairman and Director</i>	2013	\$ 401,762				\$ 401,762
	2012	\$ 60,000				\$ 60,000
	2011	\$ 47,585				\$ 47,585
Lynn Powers (1) <i>Chief Executive Officer and Director</i>	2013	\$ 415,300	\$ 500,000		\$ 1,500	\$ 916,800
	2012	\$ 407,890	\$ 329,600	\$ 78,963	\$ 41,115	\$ 857,568
	2011	\$ 380,137		\$ 503,469	\$ 1,500	\$ 885,106
William Sondheim (2) <i>President</i>	2013	\$ 351,785	\$ 300,000		\$ 41,115	\$ 692,900
	2012	\$ 407,890	\$ 329,600		\$ 1,500	\$ 738,990
	2011	\$ 380,137	\$ 42,500		\$ 1,500	\$ 424,137
John Jackson <i>Vice President of Corporate Development and Secretary</i>	2013	\$ 297,285	\$ 200,000	\$ 94,301		\$ 591,586
	2012	\$ 291,575	\$ 236,000	\$ 34,217	\$ 28,365	\$ 590,158
	2011	\$ 279,041				\$ 279,041
Stephen J. Thomas (2) <i>Chief Financial Officer and Vice President</i>	2013	\$ 251,904	\$ 200,000	\$ 150,882		\$ 602,786
	2012	\$ 239,726	\$ 200,000	\$ 6,009	\$ 24,038	\$ 469,773
	2011	\$ 212,055				\$ 212,055

- (1) Ms. Powers has served as Chief Executive Officer since March 2009 and served as President from February 1996 to November 2010.
- (2) Mr. Thomas became Chief Financial Officer and Mr. Sondheim became President in November 2010. Mr. Sondheim resigned his position in October 2013.
- (3) The *Salary* and *Bonus* columns represent amounts when earned and, because of the timing of payments, do not represent amounts paid during each presented year. The annual salary for each named executive officer as of December 31, 2013 was \$412,000 for each of Mr. Rysavy, Ms. Powers and Mr. Sondheim; \$295,000 for Mr. Jackson; and \$250,000 for Mr. Thomas. Further information about Mr. Rysavy's compensation is provided below under the heading *Compensation of Mr. Rysavy*. Bonuses are generally given at the discretion of our board of directors' compensation committee and are typically paid between February and June of the year following the year earned. For Mr. Sondheim, \$42,500 of his yearly bonus was guaranteed and paid quarterly during 2011.
- (4) The amounts in the *Option Awards* column reflect the grant date fair value of awards given to Ms. Powers during 2011 and to Mr. Jackson and Mr. Thomas during 2013, and the incremental fair value of options modified in 2012 for Ms. Powers, Mr. Jackson and Mr. Thomas, the fair values of which were computed in accordance with FASB ASC Topic 718. Mr. Rysavy has requested that he not be granted any options. In March 2012, for all employee grants that were scheduled to expire within the next two years, we extended the expiration dates by two years. As a result of these grant modifications, the expiration dates for Ms. Powers' grant that was to expire on March 31, 2012, as well as certain option awards granted to Mr. Jackson and Mr. Thomas, were each extended by two years. These awards were issued pursuant to our 2009 and 1999 Long-Term Incentive Plans. Assumptions used in the calculation of the amounts are included in footnote 11 to our audited financial statements for the year ended December 31, 2012, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2013.
- (5) *All Other Compensation* includes for 2012 the cash payout of accrued paid time off balances as of December 31, 2012 for Ms. Powers, Mr. Jackson and Mr. Thomas, and also for each of Ms. Powers and Mr. Sondheim includes \$1,500 of 401(k) company match given during each of the years presented in the Summary Compensation Table. The amount for Mr. Sondheim in 2013 also includes a cash payout of \$39,615 for accrued time off.

**Table of Contents****GRANTS OF PLAN-BASED AWARDS**

The following table includes certain information with respect to options granted during or for the year ended December 31, 2013 to our executive officers named above in the Summary Compensation Table.

Name	Grant Date	All Other Option Awards:		
		Number of Securities Underlying Options (1)	Exercise or Base Price of Option Awards (1)	Grant Date Fair Value of Stock and Option Awards (1)
Steve Thomas	10/30/13	40,000	\$ 6.18	\$ 150,882
John Jackson	10/30/13	25,000	\$ 6.18	\$ 94,301

- (1) The options were granted pursuant to Gaiam's 2009 Long-Term Incentive Plan and approved by the compensation committee of the board. The exercise price per share of these options was equal to the closing price of the underlying stock on the date of the grant. The grant date fair value of these options was determined in accordance with FASB ASC Topic 718.

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE**

The following table includes certain information as of December 31, 2013 with respect to unexercised options previously awarded to our executive officers named above in the Summary Compensation Table.

Name	Option Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (1)(2)	Option Expiration Date (1)(3)
Lynn Powers	200,000		\$ 5.30	3/31/15
	50,000		\$ 5.00	11/13/15
	84,000	116,000	\$ 5.31	5/12/21
John Jackson	35,000		\$ 5.00	6/26/15
	20,000		\$ 5.00	9/14/15
	10,800	9,200	\$ 7.18	11/18/17
	0	25,000	\$ 6.18	10/30/23
Stephen J. Thomas	10,000		\$ 5.00	12/13/15
	5,000		\$ 5.00	6/3/15
	5,000		\$ 5.00	11/13/15
	14,000	6,000	\$ 7.65	3/4/17
	10,800	9,200	\$ 7.18	11/18/17
	0	40,000	\$ 6.18	10/30/23

- (1) This table reflects the status of option awards granted pursuant to our 2009 and 1999 Long-Term Incentive Plans as of December 31, 2013. The options vest and become exercisable at 2% per month over the 50 months beginning in the 11th month after date of grant. The exercise price of the options is equal to or greater than the closing stock market price of our Class A Common Stock on the date of grant. Options granted prior to 2011 expire seven years from date of grant and options granted during 2011 and thereafter expire ten years from

## Edgar Filing: GAIAM, INC - Form 10-K

the date of grant. For further information, see footnote 11 to our audited financial statements for the year ended December 31, 2012, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2013.

- (2) During 2009, certain option awards originally granted prior to 2009 for Messrs. Sondheim, Jackson and Thomas were repriced to \$5.00 per share.
- (3) In March 2012, for all employee grants that were scheduled to expire within the next two years, we extended the expiration dates by two years. As a result of these grant modifications, the option expiration date of option awards granted (a) to Ms. Powers that were scheduled to expire on March 31, 2012, (b) to Mr. Jackson that were scheduled to expire on June 26, 2013 and September 14, 2013, and (c) to Mr. Thomas that was scheduled to expire on December 13, 2013, were each extended by two years. In March 2014, the options scheduled to expire for Ms. Powers on March 31, 2014 were extended one year to March 31, 2015.

**Table of Contents****OPTION EXERCISES AND STOCK VESTED TABLE**

The following table includes certain information with respect to options exercised during the year ended December 31, 2013 by any of our executive officers named above in the Summary Compensation Table.

Name	Option Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise
	(1)	(1)
William Sondheim	99,500	\$ 51,147

- (1) All exercises of option awards during 2013 were cashless, meaning that certain shares issued upon exercise were immediately sold in order to pay the exercise price and certain tax withholding amounts. The amount listed in the *Value Realized on Exercise* column is the sale price less the exercise price of the option times the number of shares issued and immediately sold.

**GENERALLY AVAILABLE BENEFIT PROGRAMS.**

We maintain a tax-qualified 401(k) Plan, which provides for broad-based employee participation. Our executive officers are eligible to participate in the 401(k) Plan on the same basis as other employees. On April 1, 2007, we started making matching contributions to the 401(k) Plan. As of that date, under the 401(k) Plan, all of our employees are eligible to receive matching contributions from us, and this matching contribution equals \$0.50 for each dollar contributed by an employee up to a maximum annual matching benefit of \$1,500 per person. The matching contribution is calculated and paid on a payroll-by-payroll basis subject to applicable Federal limits. We do not provide defined benefit pension plans or defined contribution retirement plans to our executives or other employees other than our 401(k) Plan described herein.

In 2013, our executive officers were eligible to receive the same health care coverage that is generally available to other of our employees. We also offered a number of other benefits to our named executive officers pursuant to benefit programs that provide for broad-based employee participation. These benefits programs included medical, dental and vision insurance, long-term and short-term disability insurance, life and accidental death and dismemberment insurance, health and dependent care flexible spending accounts, business travel insurance, wellness programs (including chiropractic, massage therapy, acupuncture, and fitness classes), relocation/expatriate programs and services, educational assistance, and certain other benefits.

Our compensation committee believes that our 401(k) Plan and the other generally available benefit programs allow us to remain competitive for employee talent, and that the availability of the benefit programs generally enhances employee productivity and loyalty to us. The main objectives of our benefits programs are to give our employees access to quality healthcare, financial protection from unforeseen events, assistance in achieving retirement financial goals, and enhanced health and productivity, in full compliance with applicable legal requirements. Typically, these generally available benefits do not specifically factor into decisions regarding an individual executive officer's total compensation or Long-Term Incentive Plan award package.

**STOCK OPTION GRANT TIMING PRACTICES**

During 2013, our compensation committee and our board consistently applied the following guidelines for stock option grant timing practices.

***New Employees:*** stock option grants to new hires are effective on the first day of the new employee's employment with us or upon approval by our compensation committee, and the exercise price for the options is set at the closing price of our Class A Common Stock on that date.

***Existing Employees:*** stock option grants to existing employees are effective on the date that our compensation committee approves the grant, and the exercise price for the options is set at or above the closing price of our Class A Common Stock on that date.



## **Table of Contents**

### **COMPENSATION OF MR. RYSAVY**

The board approved annual base salary for Mr. Rysavy was \$412,000, in 2013 and 2012 respectively. However, he voluntarily requested that his salary rate be reduced to reflect the decrease in his time devoted to our business during 2012 and 2011. As a result, Mr. Rysavy received an aggregate salary of \$47,585 during 2011 and \$60,000 during 2012. Mr. Rysavy served as our Chief Executive Officer until March 2009. He continues to serve as our Chairman and is our largest shareholder. Prior to 2013, at Mr. Rysavy's request, he has not been given any bonuses or awarded any stock options in the last ten years. Our compensation committee and our board of directors strongly believe that Mr. Rysavy's salary and overall compensation level are modest given the importance of Mr. Rysavy to our future, his previous experience and business accomplishments and the market value of his skill set as an executive.

### **EMPLOYMENT CONTRACTS AND POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL**

We do not have employment agreements with any of our executive officers, and we do not have change of control agreements with any of our executive officers. Our directors, officers, and managers are required to sign a confidentiality agreement and, upon receiving a stock option grant, a two-year non-compete agreement commencing with the date they leave our company.

### **ACCOUNTING AND TAX CONSIDERATIONS**

In designing our compensation programs, we take into consideration the accounting and tax effect that each element will or may have on us and the executive officers and other employees as a group. We aim to keep the expense related to our compensation programs as a whole within certain affordability levels. When determining how to apportion between differing elements of compensation, our goal is to meet our objectives while maintaining relative cost neutrality. For instance, if we increase benefits under one program resulting in higher compensation expense, we may seek to decrease costs under another program in order to avoid a compensation expense that is above the level then deemed affordable under existing circumstances. We recognize a charge to earnings for accounting purposes equally from the grant date until the end of the vesting period.

We believe we have structured our compensation program to comply with Internal Revenue Code Sections 162(m) and 409A. Under Section 162(m), a limitation is placed on tax deductions of any publicly-held corporation for individual compensation to certain executives of such corporation exceeding \$1,000,000 in any taxable year, unless the compensation is performance-based. If an executive is entitled to nonqualified deferred compensation benefits that are subject to Section 409A, and such benefits do not comply with Section 409A, then the benefits are taxable in the first year they are not subject to a substantial risk of forfeiture. In such case, the service provider is subject to regular federal income tax, interest and an additional federal income tax of 20% of the benefit includible in income. We do not believe we have individuals with non-performance based compensation paid in excess of the Section 162(m) tax deduction limit.

**Table of Contents****DIRECTOR COMPENSATION TABLE**

The following table provides compensation information for the one year period ended December 31, 2013 for each non-employee member of our board of directors:

Name	Fees Earned or Paid in Cash (2)	Stock Awards (1)(2)(3)	Option Awards (4)	Total
James Argyropoulos		\$ 64,000		\$ 64,000
Barnet M. Feinblum	\$ 21,500	\$ 11,500		\$ 33,000
Barbara Mowry	\$ 40,000			\$ 40,000
Paul H. Ray	\$ 26,000			\$ 26,000
Paul Sutherland		\$ 63,000		\$ 63,000
Wendy Schoppert	\$ 17,000	\$ 17,000		\$ 34,000
Kristin Frank		\$ 26,000		\$ 26,000
Chris Jaeb	\$ 14,000			\$ 14,000

- (1) Amounts in the *Stock Awards* column reflect the aggregate grant date fair value of awards granted during 2013 and have been computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of grant date fair values of awards for the year ended December 31, 2013 are included in footnote 11 to our audited financial statements for the year ended December 31, 2013, included in our Annual Report on Form 10-.
- (2) Amounts in the *Fees Earned or Paid in Cash* and *Stock Awards* columns include fees for services rendered during 2013, some of which were not administratively paid or issued until 2014.
- (3) On March 31, 2013, Mr. Argyropoulos, Mr. Feinblum and Mr. Sutherland received stock awards with grant date fair values of \$21,000, \$4,500 and \$16,000, respectively. On June 30, 2013, Mr. Argyropoulos, Mr. Feinblum and Mr. Sutherland received stock awards with grant date fair values of \$12,000, \$4,500 and \$10,000, respectively. On September 30, 2013, Mr. Argyropoulos, Mr. Feinblum and Mr. Sutherland received stock awards with grant date fair values of \$5,000, \$500 and \$4,000, respectively. On December 31, 2013, Mr. Argyropoulos, Mr. Feinblum, Mr. Sutherland and Ms. Schoppert and Ms Frank received stock awards with grant date fair values of \$26,000, \$2,000, \$33,000, \$17,000 and \$26,000, respectively. Such awards represent 2013 compensation, in lieu of cash, for services as directors.
- (4) At year end, each of Mr. Argyropoulos, Mr. Feinblum, and Mr. Ray had 35,000 outstanding option awards which were all exercisable, and the aggregated grant date fair value of each director's awards was \$144,097. Also at year end, Ms. Mowry had 20,000 outstanding option awards, of which 17,500 were exercisable, and the aggregated grant date fair value of the awards was \$98,745. Mr. Sutherland, Ms. Schoppert and Ms Frank do not have any outstanding option awards at year end.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

From January-October 2013, our compensation committee was comprised of Ms. Mowry (chairperson) and Messrs. Ray and Argyropoulos; after October 10, 2013, our compensation committee was comprised of Ms. Frank (chairperson), Ms. Schoppert, and Mr. Sutherland. None of the members of our compensation committee has at any time been an officer or employee of our company or has any interlocking relationships that are subject to disclosure under the rules of the Securities and Exchange Commission relating to compensation committees.

**COMPENSATION COMMITTEE REPORT**

Our compensation committee has reviewed and discussed with management the Compensation Discussion and Analysis for 2013. Based on the review and discussions, our compensation committee recommended to the board, and the board has approved, that the Compensation Discussion and Analysis be included in our annual report on Form 10-K for the fiscal year ended December 31, 2013. This report is submitted by our compensation committee.

**Compensation Committee**

Kristin Frank, Chairperson

Wendy Schoppert

## Edgar Filing: GAIAM, INC - Form 10-K

Paul Sutherland

*The information contained in this report shall not be deemed to be soliciting material or filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C or the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically request that the information be treated as soliciting material or specifically incorporate it by reference into a document filed under the Securities Act of 1933, as Amended (the Securities Act ) or the Exchange Act.*



**Table of Contents****Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**  
**EQUITY COMPENSATION PLAN INFORMATION AT FISCAL YEAR-END**

The following table summarizes equity compensation plan information for our Class A common stock at December 31, 2013:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	1,662,450	\$ 5.65	1,678,434
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>1,662,450</b>	<b>\$ 5.65</b>	<b>1,678,434</b>

**BENEFICIAL OWNERSHIP OF SHARES**

The following table sets forth information with respect to the beneficial ownership of our common stock as of March 26, 2014 (except as noted) for (i) each person (or group of affiliated persons) who, insofar as we have been able to ascertain, beneficially owned more than 5% of the outstanding shares of our Class A Common Stock or Class B Common Stock, (ii) each director, (iii) each executive officer named above in the Summary Compensation Table, and (iv) all current directors and executive officers as a group. We have based our calculation of the percentage of beneficial ownership on 18,607,803 shares of our Class A Common Stock and 5,400,000 shares of our Class B Common Stock outstanding on March 26, 2014.

**Title of****Class of****Common**

Stock	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Class A	Ariel Investments, LLC (2)	2,615,725	[14.06%]
	Prentice Capital Management, LP (3)	2,578,028	[13.86%]
	Financial & Investment Management Group, Ltd (4)	1,783,170	[9.59%]
	Columbia Wanger Asset Management, LLC (5)	1,616,229	[8.69%]
	FMR, LLC (6)	1,392,888	[7.49%]
	Mazama Capital Management, Inc. (7)	1,361,000	[7.32%]
	Royce & Associates, LLC (8)	961,005	[5.17%]
	Jirka Rysavy (9)	6,048,682	[25.20%]
	Lynn Powers (10)	578,000	[3.05%]
	William Sondheim (11)	0	
	John Jackson (12)	68,521	*
	Stephen Thomas (13)	48,800	*
	James Argyropoulos (14)	506,224	[2.72%]
	Kristin E. Frank (15)	3,927	*
	Chris Jaeb	0	
	Wendy Lee Schoppert (16)	2,568	*
Paul Sutherland (4)	1,783,170	[9.59%]	
All directors and officers as a group (9 persons)	9,039,892	[47.32%]	
Class B	Jirka Rysavy	5,400,000	100.0%

## Edgar Filing: GAIAM, INC - Form 10-K

All directors and officers as a group (9 persons)	5,400,000	100.0%
---	-----------	--------

\* Indicates less than one percent ownership.

- (1) This table is based upon information supplied by officers, directors and principal shareholders directly to us or on Schedules 13D and 13G and Forms 3, 4 and 5 filed with the Securities and Exchange Commission. All beneficial ownership is direct and the beneficial owner has sole voting and investment power over the securities beneficially owned unless otherwise noted. Share amounts and percent of class include securities convertible into, and stock options exercisable for, shares of our Class A Common Stock and restricted stock vesting within 60 days after March 26, 2014.
- (2) According to a report on Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2014. Ariel Investments, LLC is an investment adviser. Ariel Investments, LLC has sole voting power over 1,657,555 shares of Class A Common Stock, sole investment power over 2,615,725 shares of Class A Common Stock, and no voting or investment power over the respective balances of the securities. The address for Ariel Investments, LLC is 200 E. Randolph Drive, Suite 2900, Chicago, IL 60601.

**Table of Contents**

- (3) According to a report on Schedule 13D/A filed with the Securities and Exchange Commission on June 8, 2012 by Prentice Capital Management, LP and Michael Zimmerman. According to the filing, the securities consist of (a) 2,566,323 shares of our Class A Common Stock directly held by investment funds and in investment accounts managed by Prentice Capital Management, LP over which Prentice Capital Management, LP and Michael Zimmerman share voting and dispositive power; and (b) 11,705 shares of our Class A Common Stock directly held by The Michael & Holly Zimmerman Family Foundation, Inc. over which Michael Zimmerman shares voting and dispositive power. Prentice Capital Management, LP and Michael Zimmerman disclaim beneficial ownership over the securities. The address for Prentice Capital Management, LP and Mr. Zimmerman is 33 Benedict Place, 2nd Floor, Greenwich, CT 06830.
- (4) According to a report on Schedule 13G filed with the Securities and Exchange Commission on March 11, 2014 by Financial & Investment Management Group, Ltd. ( FIMgroup ) and information provided by Mr. Sutherland as of March 26, 2014. The securities consist of (a) 1,751,678 shares of our Class A Common Stock beneficially owned by FIMgroup in its capacity as investment adviser to its clients other than Mr. Sutherland; (b) 5,900 shares of our Class A Common Stock directly owned by FIMgroup; (c) 4,000 shares of our Class A Common Stock directly owned by FIMgroup's 401(k) plan for the benefit of Mr. Sutherland, (d) 550 shares of our Class A Common Stock directly owned by Mr. Sutherland; and (e) 21,042 shares of our Class A Common stock directly owned by a trust for which Mr. Sutherland serves as the trustee. FIMgroup is an investment adviser and shares voting and dispositive power over the securities beneficially owned with its clients. Mr. Sutherland, in his capacity as an officer of FIMgroup, has shared voting and shared dispositive control over the securities beneficially owned by FIMgroup. FIMgroup and Mr. Sutherland disclaim beneficial ownership of the shares of Class A Common Stock not directly owned by them, respectively. The address for FIMgroup and Mr. Sutherland is 111 Cass St., Traverse City, MI 49684.
- (5) According to a report on Schedule 13G/A filed with the Securities and Exchange Commission on February 6, 2014 by Columbia Wanger Asset Management, LLC and Columbia Acorn Trust. Columbia Wanger Asset Management, LLC is an investment adviser and the securities are owned by Columbia Acorn Trust and various other investment companies and managed accounts. Columbia Wanger Asset Management, LLC disclaims beneficial ownership over the securities. Columbia Acorn Trust has sole voting and investment power over 1,500,000 shares of Class A Common Stock. The address for Columbia Wanger Asset Management, LLC and Columbia Acorn Trust is 227 West Monroe Street, Suite 3000, Chicago, Illinois 60606.
- (6) According to a report on Schedule 13G filed with the Securities and Exchange Commission on February 17, 2009 filed by FMR LLC and Edward C. Johnson 3d. According to the filing, the securities consist of (a) 722,000 shares of our Class A Common Stock beneficially owned by Fidelity Management & Research Company, a wholly-owned subsidiary of FMR LLC and an investment adviser, as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940; Edward C. Johnson 3d, FMR LLC, through its control of Fidelity Management & Research Company, and the investment companies each has sole dispositive power over the 722,000 shares; and (b) 670,888 shares of our Class A Common Stock beneficially owned by Pyramis Global Advisors Trust Company, an indirect wholly-owned subsidiary of FMR LLC and a bank as defined in Section 3(a)(6) of the Exchange Act, as a result of its serving as investment manager of institutional accounts owning such shares; Edward C. Johnson 3d and FMR LLC, through its control of Pyramis Global Advisors Trust Company, each has sole dispositive power over 670,888 of the shares and sole voting power over 587,600 of the shares. Edward C. Johnson 3d, Chairman of FMR, LLC, and members of the Johnson family may be deemed to form a controlling group with respect to FMR, LLC. The address for FMR, LLC and Edward C. Johnson 3d is 82 Devonshire Street, Boston, Massachusetts 02109.
- (7) According to a report on Schedule 13G filed with the Securities and Exchange Commission on February 8, 2008. According to the filing, Mazama Capital Management, Inc. is an investment adviser and has sole voting power over 738,100 shares of our Class A Common Stock and sole dispositive power over 1,361,000 shares of our Class A Common Stock. The address for Mazama Capital Management, Inc. is One Southwest Columbia Street, Suite 1500, Portland, Oregon 97258.
- (8) According to a report on Schedule 13G/A filed with the Securities and Exchange Commission on January 9, 2014. According to the filing, Royce & Associates, LLC, is an investment adviser. The address for Royce & Associates, LLC is 745 Fifth Avenue, New York, NY 10151.
- (9) According to a report on Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2014. Includes 5,400,000 shares of our Class A Common Stock issuable upon conversion of shares of our Class B Common Stock.
- (10) Consist of 224,000 shares of our Class A Common Stock, 346,000 shares of our Class A Common Stock issuable upon exercise of stock options that are currently exercisable, and 8,000 shares of our Class A Common Stock issuable upon exercise of stock options exercisable within 60 days after March 26, 2014.
- (11) Mr. Sondheim served as President of the Company until October 17, 2013.
- (12) Consist of 721 shares of our Class A Common Stock, 67,000 shares of our Class A Common Stock issuable upon exercise of stock options that are currently exercisable, and 800 shares of our Class A Common Stock issuable upon exercise of stock options exercisable within 60 days after March 26, 2014.
- (13) Consist of 47,200 shares of our Class A Common Stock issuable upon exercise of stock options that are currently exercisable, and 1,600 shares of our Class A Common Stock issuable upon exercise of stock options exercisable within 60 days after March 26, 2014.

**Table of Contents**

- (14) Consist of 168,964 shares of our Class A Common Stock directly held by Mr. Argyropoulos, 303,333 shares of our Class A Common Stock directly held by Argyropoulos Investors, GP, 32,500 shares of our Class A Common Stock issuable upon exercise of stock options that are currently exercisable, and 2,500 shares of our Class A Common Stock issuable upon exercise of stock options exercisable within 60 days after March 26, 2014.
- (15) Consists of 3,927 shares of our Class A Common Stock.
- (16) Consists of 2,568 shares of our Class A Common Stock.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**  
**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Any related party transaction is reviewed by disinterested members of management and, if material, by disinterested members of our board or a committee thereof to ensure that the transaction reflects terms that are at least as favorable for us as we would expect in a similar transaction negotiated at arm's length by unrelated parties.

Jacquelyn Abraham, the daughter of Gaiam's Director and Chief Executive Officer, Lynn Powers, is Gaiam's Vice President of Human Resources, and for 2013 Ms. Abraham earned an annual salary of \$171,535 and received a bonus of \$15,000.

**DIRECTOR INDEPENDENCE**

Our board of directors currently consists of seven members and meets regularly during the year. Our board of directors has determined that each of Messrs. Argyropoulos, Sutherland, and Jaeb and Ms. Frank and Schoppert are independent as defined by the listing standards of the NASDAQ Global Market.

**Item 14. Principal Accounting Fees and Services**

The following table presents fees for professional services rendered by EKS&H LLLP for the years ended December 31, 2013 and 2012:

Audit and Non-Audit Fees (in \$000's)	2013	2012
Audit fees (1)	\$ 300	\$ 511
Audit related fees (2)	\$ 14	\$
Tax fees (3)	\$ 19	\$ 51
Total	\$ 333	\$ 562

- (1) Audit fees are fees that we paid for the audit of our annual financial statements included in our annual report on Form 10-K and review of unaudited financial statements included in our quarterly reports Form 10-Q; for the audit of our internal control over financial reporting; for services that are normally provided by the auditor in connection with business combination, statutory or regulatory filings or engagements, including our acquisition of Vivendi Entertainment; and all costs and expenses in connection with the above.
- (2) Audit related fees consisted of accounting consultations.
- (3) Tax fees represent fees charged for services for tax advice, tax compliance, and tax planning.

In accordance with the policies of our audit committee and legal requirements, all services to be provided by our independent registered public accounting firm are pre-approved by our audit committee. Pre-approved services include audit services, audit-related services, tax services and other services. In some cases, pre-approval is provided by the full audit committee for up to a year, and such services relate to a particular defined task or scope of work and are subject to a specific budget. In other cases, the chairman of our audit committee has the delegated authority from our audit committee to pre-approve additional services, and such action is then communicated to the full audit committee at the next audit committee meeting. To avoid certain potential conflicts of interest, the law prohibits a publicly traded company from obtaining certain non-audit services from its auditing firm. If we need such services, we obtain them from other service providers.

## Edgar Filing: GAIAM, INC - Form 10-K

EKS&H LLLP is currently engaged to provide auditing services through the third quarter of 2014. Our audit committee is in negotiations with EKS&H LLLP to be our independent registered public accounting firm for the remainder of 2014. Representatives of EKS&H LLLP are expected to be present at our 2014 annual meeting of shareholders and will have an opportunity to make a statement.

**Table of Contents****PART IV****Item 15. Exhibits and Financial Statement Schedules**

(a) Documents filed as part of this report are as follows:

1. Consolidated Financial Statements.

See listing of Consolidated Financial Statements included as part of this Form 10-K in Item 8 of Part II.

2. Financial Statement Schedules:

Schedule II Consolidated Valuation and Qualifying Accounts.

3. Exhibits:

The following exhibits are incorporated by reference or are filed or furnished with this report as indicated below:

Exhibit No.	Description
2.1	Purchase Agreement, dated March 6, 2012, among Gaiam Americas, Inc. and Universal Music Group Distribution, Corp. (incorporated by reference to Exhibit 2.1 of Gaiam's current report on Form 8-K dated March 28, 2011 and filed April 3, 2012 (No. 000-27517)).**
2.2	First Amendment, dated March 9, 2012, to Purchase Agreement, dated March 6, 2012, among Gaiam Americas, Inc. and Universal Music Group Distribution, Corp. (incorporated by reference to Exhibit 2.2 of Gaiam's current report on Form 8-K dated March 28, 2011 and filed April 3, 2012 (No. 000-27517)).**
2.3	Second Amendment, dated March 12, 2012, to Purchase Agreement, dated March 6, 2012, among Gaiam Americas, Inc. and Universal Music Group Distribution, Corp. (incorporated by reference to Exhibit 2.3 of Gaiam's current report on Form 8-K dated March 28, 2011 and filed April 3, 2012 (No. 000-27517)).**
2.4	Membership Interest Purchase Agreement, dated October 17, 2013, by and among Cinedigm Entertainment Holdings, LLC, Gaiam Americas, Inc. and solely for purposes of Article 2, Article 8 and Article 9, Gaiam, Inc. (incorporated by reference to Exhibit 2.1 of Gaiam's current report on Form 8-K dated October 17, 2013 and filed October 23, 2013 (No. 000-27517)).
3.1	Amended and Restated Articles of Incorporation of Gaiam, Inc. (incorporated by reference to Exhibit 3.1 of Gaiam's Amendment No. 5 to the registration statement on Form S-1, filed October 25, 1999 (No. 333-83283)).
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation of Gaiam, Inc. (incorporated by reference to Exhibit 3.1 of Gaiam's quarterly report on Form 10-Q for the quarter ended June 30, 2006 filed August 7, 2006 (No. 000-27517)).
3.3	Amended and Restated Bylaws of Gaiam, Inc. (incorporated by reference to Exhibit 3.1 of Gaiam's current report on Form 8-K dated November 29, 2007 and filed November 30, 2007 (No. 000-27517)).
4.1	Form of Gaiam, Inc. Stock Certificate (incorporated by reference to Exhibit 4.1 of Gaiam's Amendment No. 6 to the registration statement on Form S-1, filed October 27, 1999 (No. 333-83283)).
10.1	2005 Amended and Restated Credit Agreement, dated July 29, 2005, between Gaiam, Inc. (and other Gaiam subsidiaries identified therein) and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.2 of Gaiam's quarterly report on Form 10-Q for the quarter ended June 30, 2005 filed August 9, 2005 (No. 000-27517)).

## Edgar Filing: GAIAM, INC - Form 10-K

- 10.2 First Amendment to Credit Agreement, executed October 22, 2007, between Gaiam, Inc. (and other Gaiam subsidiaries identified therein) and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.2 of Gaiam's annual report on Form 10-K for the year ended December 31, 2007 filed March 17, 2008 (No. 000-27517)).
- 10.3 Modification Agreement, executed January 21, 2010, between Gaiam, Inc. (and other Gaiam subsidiaries identified therein) and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.3 of Gaiam's annual report on Form 10-K for the year ended December 31, 2009 filed March 16, 2010 (No. 000-27517)).
- 10.4 Gaiam, Inc. Amended and Restated 1999 Long-Term Incentive Plan, dated January 15, 2009 (incorporated by reference to Exhibit B of Gaiam's proxy statement dated and filed March 13, 2009 (No. 000-27517)).\*
- 10.5 Gaiam, Inc. 2009 Long-Term Incentive Plan, dated January 15, 2009 (incorporated by reference to Exhibit A of Gaiam's proxy statement dated and filed March 13, 2009 (No. 000-27517)).\*

**Table of Contents**

<b>Exhibit No.</b>	<b>Description</b>
10.6	Lease Agreement, dated December 16, 1999, between Gaiam, Inc. and Duke-Weeks Realty Limited Partnership (incorporated by reference to Exhibit 10.2 of Gaiam's Amendment No. 1 to the registration statement on Form S-4, filed December 6, 2000 (No. 333-50560)).
10.7	First Lease Amendment, dated April 12, 2000 and effective March 1, 2000, between Gaiam, Inc. and Duke-Weeks Realty Limited Partnership (incorporated by reference to Exhibit 10.4 of Gaiam's annual report on Form 10-K for the year ended December 31, 2002 filed March 12, 2003 (No. 000-27517)).
10.8	Second Lease Amendment, dated October 5, 2005 and effective October 1, 2005, between Gaiam, Inc. and Dugan Financing LLC (successor to Duke-Weeks Realty Limited Partnership) (incorporated by reference to Exhibit 10.5 of Gaiam's annual report on Form 10-K for the year ended December 31, 2005 filed March 16, 2006 (No. 000-27517)).
10.9	Third Lease Amendment, dated November 8, 2007 and effective October 1, 2007, between Gaiam, Inc. and Dugan Financing LLC (incorporated by reference to Exhibit 10.9 of Gaiam's annual report on Form 10-K for the year ended December 31, 2009 filed March 16, 2010 (No. 000-27517)).
10.10	Fourth Lease Amendment, dated October 7, 2009, between Gaiam, Inc. and Dugan Financing, LLC (incorporated by reference to Exhibit 10.10 of Gaiam's annual report on Form 10-K for the year ended December 31, 2009 filed March 16, 2010 (No. 000-27517)).
10.11	Lease Agreement, dated October 5, 2005, between Gaiam, Inc. and Dugan Realty, L.L.C. (incorporated by reference to Exhibit 10.6 of Gaiam's annual report on Form 10-K for the year ended December 31, 2005 filed March 16, 2006 (No. 000-27517)).
10.12	First Lease Amendment, dated January 25, 2008 and effective October 1, 2007, between Gaiam, Inc. and Dugan Realty, L.L.C. (incorporated by reference to Exhibit 10.12 of Gaiam's annual report on Form 10-K for the year ended December 31, 2009 filed March 16, 2010 (No. 000-27517)).
10.13	Insurance and Stock Redemption Agreement, dated as of August 4, 2005, between Gaiam, Inc. and Jirka Rysavy (incorporated by reference to Exhibit 10.5 of Gaiam's current report on Form 8-K dated August 3, 2005, filed August 9, 2005 (No. 000-27517)).
10.14	Form of Employee Stock Option Agreement, under Gaiam's 1999 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 of Gaiam's quarterly report on Form 10-Q for the quarter ended June 30, 2005 filed August 9, 2005 (No. 000-27517)).*
10.15	Form of Employee Stock Option Agreement, under Gaiam's 2009 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.15 of Gaiam's annual report on Form 10-K for the year ended December 31, 2009 filed March 16, 2010 (No. 000-27517)).*
10.16	Second Amendment to Credit Agreement, executed October 2, 2010 between Gaiam, Inc. (and other Gaiam subsidiaries identified therein) and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.16 of Gaiam's annual report on Form 10-K for the year ended December 31, 2010 filed March 11, 2011 (No. 000-27517)).
10.17	Third Amendment to Credit Agreement, executed October 27, 2011 between Gaiam, Inc. (and other Gaiam subsidiaries identified therein) and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.1 of Gaiam's quarterly report on Form 10-Q for the quarter ended September 30, 2011 filed November 9, 2011 (No. 000-27517)).
10.18	Revolving Credit and Security Agreement, dated as of July 31, 2012, among Gaiam Americas, Inc., SPRI Products, Inc., GT Direct, Inc., VE Newco, LLC and PNC Bank, N.A. (incorporated by reference to Exhibit 10.1 of Gaiam's quarterly report on Form 10-Q for the quarter ended September 30, 2012 filed November 9, 2012 (No. 000-27517)).
10.19	Form of Indemnification Agreement and schedule of directors and officers who have entered into such agreement (filed herewith).
21.1	List of Gaiam, Inc. Subsidiaries (filed herewith).
23.1	Consent letter from EKS&H LLLP (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 (filed herewith).





**Table of Contents**

<b>Exhibit No.</b>	<b>Description</b>
32.1	Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
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.

\* Indicates management contract or compensatory plan or arrangement.

\*\* Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

This exhibit excludes schedules and exhibits pursuant to Item 601(b)(2) of Regulation S-K, which the registrant agrees to furnish supplementally to the Securities and Exchange Commission upon request by the Securities and Exchange Commission.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GAIAM, INC.

By: /s/ Lynn Powers  
Lynn Powers  
Chief Executive Officer  
March 31, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Jirka Rysavy	Chairman of the Board and Chairman	March 31, 2014
Jirka Rysavy		
/s/ Lynn Powers	Chief Executive Officer and Director	March 31, 2014
Lynn Powers	(Principal Executive Officer)	
/s/ James Argyropoulos	Director	March 31, 2014
James Argyropoulos		
/s/ Kristin Frank	Director	March 31, 2014
Kristin Frank		
/s/ Chris Jaeb	Director	March 31, 2014
Chris Jaeb		
/s/ Wendy Schoppert	Director	March 31, 2014
Wendy Schoppert		
/s/ Paul Sutherland	Director	March 31, 2014
Paul Sutherland		
/s/ Stephen J. Thomas	Chief Financial Officer	March 31, 2014
Stephen J. Thomas	(Principal Financial and Accounting Officer)	

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
2.1	Purchase Agreement, dated March 6, 2012, among Gaiam Americas, Inc. and Universal Music Group Distribution, Corp. (incorporated by reference to Exhibit 2.1 of Gaiam's current report on Form 8-K dated March 28, 2011 and filed April 3, 2012 (No. 000-27517)).**
2.2	First Amendment, dated March 9, 2012, to Purchase Agreement, dated March 6, 2012, among Gaiam Americas, Inc. and Universal Music Group Distribution, Corp. (incorporated by reference to Exhibit 2.2 of Gaiam's current report on Form 8-K dated March 28, 2011 and filed April 3, 2012 (No. 000-27517)).**
2.3	Second Amendment, dated March 12, 2012, to Purchase Agreement, dated March 6, 2012 among Gaiam Americas, Inc. and Universal Music Group Distribution, Corp. (incorporated by reference to Exhibit 2.3 of Gaiam's current report on Form 8-K dated March 28, 2011 and filed April 3, 2012 (No. 000-27517)).**
2.4	Membership Interest Purchase Agreement, dated October 17, 2013, by and among Cinedigm Entertainment Holdings, LLC, Gaiam Americas, Inc. and solely for purposes of Article 2, Article 8 and Article 9, Gaiam, Inc. (incorporated by reference to Exhibit 2.1 of Gaiam's current report on Form 8-K dated October 17, 2013 and filed October 23, 2013 (No. 000-27517)).
3.1	Amended and Restated Articles of Incorporation of Gaiam, Inc. (incorporated by reference to Exhibit 3.1 of Gaiam's Amendment No. 5 to the registration statement on Form S-1, filed October 25, 1999 (No. 333-83283)).
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation of Gaiam, Inc. (incorporated by reference to Exhibit 3.1 of Gaiam's quarterly report on Form 10-Q for the quarter ended June 30, 2006 filed August 7, 2006 (No. 000-27517)).
3.3	Amended and Restated Bylaws of Gaiam, Inc. (incorporated by reference to Exhibit 3.1 of Gaiam's current report on Form 8-K dated November 29, 2007 and filed on November 30, 2007 (No. 000-27517)).
4.1	Form of Gaiam, Inc. Stock Certificate (incorporated by reference to Exhibit 4.1 of Gaiam's Amendment No. 6 to the registration statement on Form S-1, filed October 27, 1999 (No. 333-83283)).
10.1	2005 Amended and Restated Credit Agreement, dated July 29, 2005, between Gaiam, Inc. (and other Gaiam subsidiaries identified therein) and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.2 of Gaiam's quarterly report on Form 10-Q for the quarter ended June 30, 2005 filed August 9, 2005 (No. 000-27517)).
10.2	First Amendment to Credit Agreement, executed October 22, 2007, between Gaiam, Inc. (and other Gaiam subsidiaries identified therein) and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.2 of Gaiam's annual report on Form 10-K for the year ended December 31, 2007 filed March 17, 2008 (No. 000-27517)).
10.3	Modification Agreement, executed January 21, 2010, between Gaiam, Inc. (and other Gaiam subsidiaries identified therein) and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.3 of Gaiam's annual report on Form 10-K for the year ended December 31, 2009 filed March 16, 2010 (No. 000-27517)).
10.4	Gaiam, Inc. Amended and Restated 1999 Long-Term Incentive Plan, dated January 15, 2009 (incorporated by reference to Exhibit B of Gaiam's proxy statement dated and filed March 13, 2009 (No. 000-27517)).*
10.5	Gaiam, Inc. 2009 Long-Term Incentive Plan, dated January 15, 2009 (incorporated by reference to Exhibit A of Gaiam's proxy statement dated and filed March 13, 2009 (No. 000-27517)).*
10.6	Lease Agreement, dated December 16, 1999, between Gaiam, Inc. and Duke-Weeks Realty Limited Partnership (incorporated by reference to Exhibit 10.2 of Gaiam's Amendment No. 1 to the registration statement on Form S-4, filed December 6, 2000 (No. 333-50560)).
10.7	First Lease Amendment, dated April 12, 2000 and effective March 1, 2000, between Gaiam, Inc. and Duke-Weeks Realty Limited Partnership (incorporated by reference to Exhibit 10.4 of Gaiam's annual report on Form 10-K for the year ended December 31, 2002 filed March 12, 2003 (No. 000-27517)).
10.8	Second Lease Amendment, dated October 5, 2005 and effective October 1, 2005, between Gaiam, Inc. and Dugan Financing LLC (successor to Duke-Weeks Realty Limited Partnership) (incorporated by reference to Exhibit 10.5 of Gaiam's annual report on Form 10-K for the year ended December 31, 2005 filed March 16, 2006 (No. 000-27517)).

## Edgar Filing: GAIAM, INC - Form 10-K

- 10.9 Third Lease Amendment, dated November 8, 2007 and effective October 1, 2007, between Gaiam, Inc. and Dugan Financing LLC (incorporated by reference to Exhibit 10.9 of Gaiam's annual report on Form 10-K for the year ended December 31, 2009 filed March 16, 2010 (No. 000-27517)).
- 10.10 Fourth Lease Amendment, dated October 7, 2009, between Gaiam, Inc. and Dugan Financing, LLC (incorporated by reference to Exhibit 10.10 of Gaiam's annual report on Form 10-K for the year ended December 31, 2009 filed March 16, 2010 (No. 000-27517)).

**Table of Contents**

<b>Exhibit No.</b>	<b>Description</b>
10.11	Lease Agreement, dated October 5, 2005, between Gaiam, Inc. and Dugan Realty, L.L.C. (incorporated by reference to Exhibit 10.6 of Gaiam's annual report on Form 10-K for the year ended December 31, 2005 filed March 16, 2006 (No. 000-27517)).
10.12	First Lease Amendment, dated January 25, 2008 and effective October 1, 2007, between Gaiam, Inc. and Dugan Realty, L.L.C (incorporated by reference to Exhibit 10.12 of Gaiam's annual report on Form 10-K for the year ended December 31, 2009 filed March 16, 2010 (No. 000-27517)).
10.13	Insurance and Stock Redemption Agreement, dated as of August 4, 2005, between Gaiam, Inc. and Jirka Rysavy (incorporated by reference to Exhibit 10.5 of Gaiam's current report on Form 8-K dated August 3, 2005, filed August 9, 2005 (No. 000-27517)).
10.14	Form of Employee Stock Option Agreement, under Gaiam's 1999 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 of Gaiam's quarterly report on Form 10-Q for the quarter ended June 30, 2005 filed August 9, 2005 (No. 000-27517)).*
10.15	Form of Employee Stock Option Agreement, under Gaiam's 2009 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.15 of Gaiam's annual report on Form 10-K for the year ended December 31, 2009 filed March 16, 2010 (No. 000-27517)).*
10.16	Second Amendment to Credit Agreement, executed October 2, 2010 between Gaiam, Inc. (and other Gaiam subsidiaries identified therein) and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.16 of Gaiam's annual report on Form 10-K for the year ended December 31, 2010 filed March 11, 2011 (No. 000-27517)).
10.17	Third Amendment to Credit Agreement, executed October 27, 2011 between Gaiam, Inc. (and other Gaiam subsidiaries identified therein) and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.1 of Gaiam's quarterly report on Form 10-Q for the quarter ended September 30, 2011 filed November 9, 2011 (No. 000-27517)).
10.18	Revolving Credit and Security Agreement, dated as of July 31, 2012, among Gaiam Americas, Inc., SPRI Products, Inc., GT Direct, Inc., VE Newco, LLC and PNC Bank, N.A. (incorporated by reference to Exhibit 10.1 of Gaiam's quarterly report on Form 10-Q for the quarter ended September 30, 2012 filed November 9, 2012 (No. 000-27517)).
10.19	Form of Indemnification Agreement and schedule of directors and officers who have entered into such agreement (filed herewith).
21.1	List of Gaiam, Inc. Subsidiaries (filed herewith).
23.1	Consent letter from EKS&H LLLP (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
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.

\* Indicates management contract or compensatory plan or arrangement.

## Edgar Filing: GAIAM, INC - Form 10-K

\*\* Portions of this exhibit have been omitted pursuant to a request for confidential treatment. This exhibit excludes schedules and exhibits pursuant to Item 601(b)(2) of Regulation S-K, which the registrant agrees to furnish supplementally to the Securities and Exchange Commission upon request by the Securities and Exchange Commission.