

GAIAM, INC
Form 10-Q
May 09, 2014

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

COLORADO
(State or other jurisdiction of
incorporation or organization)

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

833 WEST SOUTH BOULDER ROAD,
LOUISVILLE, COLORADO 80027

(Address of principal executive offices)

(303) 222-3600

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

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

| Class | Outstanding at May 6, 2014 |
|--|-----------------------------------|
| Class A Common Stock (\$.0001 par value) | 18,662,761 |
| Class B Common Stock (\$.0001 par value) | 5,400,000 |

GAIAM, INC.

FORM 10-Q

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Unaudited Interim Condensed Consolidated Financial Statements

We have prepared our unaudited interim condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to these rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, the unaudited interim condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, our consolidated financial position as of March 31, 2014, the interim results of operations for the three months ended March 31, 2014 and 2013, and cash flows for the three months ended March 31, 2014 and 2013. These interim statements have not been audited. The balance sheet as of December 31, 2013 was derived from our audited consolidated financial statements included in our annual report on Form 10-K. The interim condensed consolidated financial statements contained herein should be read in conjunction with our audited financial statements, including the notes thereto, for the year ended December 31, 2013.

GAIAM, INC.**Condensed consolidated balance sheets**

| (in thousands, except share and per share data) | March 31, 2014 (unaudited) | December 31, 2013 |
|---|---|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 29,545 | \$ 32,229 |
| Accounts receivable, net | 23,832 | 31,399 |
| Inventory, less allowances | 19,886 | 20,275 |
| Deferred advertising costs | 583 | 311 |
| Advances | 620 | 1,078 |
| Other current assets | 8,491 | 8,081 |
| Current assets of discontinued operations | 900 | 1,879 |
| | | |
| Total current assets | 83,857 | 95,252 |
| Property and equipment, net | 22,648 | 22,540 |
| Media library, net | 5,578 | 5,211 |
| Goodwill | 13,999 | 13,999 |
| Other intangibles, net | 858 | 1,155 |
| Other assets | 2,240 | 1,835 |
| Noncurrent assets of discontinued operations | 10 | 10 |
| | | |
| Total assets | \$ 129,190 | \$ 140,002 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 8,440 | \$ 11,697 |
| Accrued liabilities | 15,092 | 17,503 |
| Participations payable | 632 | 3,916 |
| Current liabilities of discontinued operations | 831 | 1,596 |
| | | |
| Total current liabilities | \$ 24,995 | 34,712 |
| Commitments and contingencies | | |
| Equity: | | |
| Gaiam, Inc. shareholders' equity: | | |
| Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 18,638,448 and 18,595,121 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively | 2 | 2 |
| Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at March 31, 2014 and December 31, 2013 | 1 | 1 |
| Additional paid-in capital | 168,609 | 167,875 |
| Accumulated other comprehensive income (expense) | 194 | (33) |
| Accumulated deficit | (68,547) | (66,413) |
| | | |
| Total Gaiam, Inc. shareholders' equity | 100,259 | 101,432 |

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| | | |
|------------------------------|------------|------------|
| Noncontrolling interest | 3,936 | 3,858 |
| Total equity | 104,195 | 105,290 |
| Total liabilities and equity | \$ 129,190 | \$ 140,002 |

See accompanying notes to the interim condensed consolidated financial statements.

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

| (in thousands, except per share data) | For the Three Months Ended | |
|--|-----------------------------------|-------------|
| | March 31, | |
| | 2014 | 2013 |
| | (unaudited) | |
| Net revenue | \$ 37,611 | \$ 36,679 |
| Cost of goods sold | 20,591 | 20,929 |
| Gross profit | 17,020 | 15,750 |
| Expenses: | | |
| Selling and operating | 16,408 | 15,382 |
| Corporate, general and administration | 3,090 | 2,921 |
| Other general income and expense | | 603 |
| Total expenses | 19,498 | 18,906 |
| Loss from operations | (2,478) | (3,156) |
| Interest and other income (expense) | 38 | (31) |
| Gain on sale of investment | 438 | |
| Loss before income taxes and noncontrolling interest | (2,002) | (3,187) |
| Income tax expense (benefit) | 96 | (984) |
| Net loss from continuing operations | (2,098) | (2,203) |
| Income from discontinued operations, net of tax | 26 | 1,981 |
| Net loss | (2,072) | (222) |
| Net (income) attributable to noncontrolling interest | (62) | (54) |
| Net loss attributable to Gaiam, Inc. | \$ (2,134) | \$ (276) |
| Net income (loss) per share attributable to Gaiam, Inc. common shareholders basic: | | |
| From continuing operations | \$ (0.09) | \$ (0.10) |
| From discontinued operations | \$ 0.00 | \$ 0.09 |
| Basic net income (loss) per share attributable to Gaiam, Inc. | \$ (0.09) | \$ (0.01) |
| Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted: | | |
| From continuing operations | \$ (0.09) | \$ (0.10) |
| From discontinued operations | \$ 0.00 | \$ 0.09 |
| Diluted net income (loss) per share attributable to Gaiam, Inc. | \$ (0.09) | \$ (0.01) |

| | | |
|--------------------------------------|--------|--------|
| Weighted-average shares outstanding: | | |
| Basic | 24,006 | 22,732 |
| Diluted | 24,006 | 22,732 |

See accompanying notes to the interim condensed consolidated financial statements.

GAIAM, INC.**Condensed consolidated statements of comprehensive loss**

| (in thousands, except per share data) | For the Three Months Ended March 31, | |
|---|---|-----------------|
| | 2014 | 2013 |
| | (unaudited) | |
| Net loss | \$ (2,072) | \$ (222) |
| Accumulated other comprehensive income (loss): | | |
| Foreign currency translation gain (loss), net of tax | 27 | 2 |
| Unrealized gain on equity security, net of tax | 232 | |
| Comprehensive loss | (1,813) | (220) |
| Less: comprehensive (income) loss attributable to the noncontrolling interest | (16) | (55) |
| Comprehensive loss attributable to Gaiam, Inc. | \$ (1,829) | \$ (275) |

See accompanying notes to the interim condensed consolidated financial statements

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

| (in thousands) | For the Three Months Ended March 31, | |
|---|---|----------|
| | 2014 | 2013 |
| | (unaudited) | |
| Operating activities | | |
| Net loss | \$ (2,072) | \$ (222) |
| Income from discontinued operations | (26) | (1,981) |
| Loss from continuing operations | (2,098) | (2,203) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 512 | 553 |
| Amortization | 518 | 386 |
| Share-based compensation expense | 583 | 194 |
| Deferred and stock option income tax expense (benefit) | (43) | 91 |
| (Gain) loss on translation of foreign currency | (28) | 42 |
| Gain on investment | (438) | |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable, net | 7,598 | 3,074 |
| Inventory, net | 399 | 2,272 |
| Deferred advertising costs | (272) | 380 |
| Advances | 459 | 282 |
| Other current assets | (647) | (1,060) |
| Accounts payable | (3,273) | (1,958) |
| Participations payable | (3,478) | 312 |
| Accrued liabilities | (2,237) | 1,330 |
| Net cash provided by (used in) operating activities continuing operations | (2,445) | 3,695 |
| Net cash provided by (used in) operating activities discontinued operations | 239 | 2,501 |
| Net cash provided by (used in) operating activities | (2,206) | 6,196 |
| Investing activities | | |
| Proceeds from sale of investment | 438 | |
| Purchase of property, equipment and media rights | (1,208) | (652) |
| Purchase of businesses, net of acquired cash | | (321) |
| Net cash used in investing activities continuing operations | (770) | (973) |
| Net cash used in investing activities discontinued operations | | (26) |
| Net cash used in investing activities | (770) | (999) |
| Financing activities | | |
| Proceeds from issuance of stock | 193 | |

| | | |
|---|---------|---------|
| Net cash (used in) provided by financing activities continuing operations | 193 | |
| Net cash (used in) provided by financing activities discontinued operations | | (7,903) |
| Net cash (used in) provided by financing activities | 193 | (7,903) |
| Effect of exchange rates on cash | 99 | (40) |
| Net change in cash | (2,684) | (2,746) |
| Cash at beginning of period | 32,229 | 9,858 |
| Cash at end of period | 29,545 | 7,112 |

Supplemental cash flow information

| | | |
|-------------------|--------|--------|
| Income taxes paid | \$ 147 | \$ 33 |
| Interest paid | \$ 13 | \$ 164 |

See accompanying notes to the interim condensed consolidated financial statements

Notes to interim condensed 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, responsible media and conscious community. We were incorporated under the laws of the State of Colorado on July 7, 1988.

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States, or GAAP, and they include our accounts and those of our subsidiaries. Intercompany transactions and balances have been eliminated.

The unaudited condensed consolidated financial position, results of operations and cash flows for the interim periods disclosed in this report are not necessarily indicative of future financial results.

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.

2. Significant Accounting Policies

No changes were made to our significant accounting policies during the three months ended March 31, 2014.

Recent Accounting Pronouncements

In April of 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in the ASU change the criteria for reporting discontinued operations and expand the related disclosures. Under the new guidance, only disposals representing a strategic shift in operations are presented as discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective in the first quarter of 2015 for public organizations with calendar year ends. The Company has not determined the impact the new ASU will have on reported financial position or results of operations.

Use of Estimates and Reclassifications

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

3. Related Party Transactions

During 2013, we sold the majority of our investment in Real Goods Solar, Inc. (RSOL) 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 no longer report our portion of RSOL s net income or loss each period.

4. Equity

During the first three months of 2014, we issued 4,827 shares of our Class A common stock under our 2009 Long-Term Incentive Plan to our independent directors, in lieu of cash compensation, for services rendered in 2014. We valued the shares issued to our independent directors at estimated fair value based on the closing price of our shares on the date the shares were issued, which by policy is the last trading day of each quarter in which the services were rendered.

The following is a reconciliation from December 31, 2013 to March 31, 2014 of the carrying amount of total equity, equity attributable to Gaiam, Inc., and equity attributable to the noncontrolling interest.

**Gaiam, Inc. Shareholders
Accumulated Class A
Other and Class B**

| (in thousands) | Total | Comprehensive Loss | Accumulated Deficit | Comprehensive Income | Common Stock | Paid-in Capital | Noncontrolling Interest |
|---|----------------|-----------------------|------------------------|-------------------------|-----------------|--------------------|----------------------------|
| Balance at December 31, 2013 | \$ 105,290 | | \$ (66,413) | \$ (33) | \$ 3 | \$ 167,875 | \$ 3,858 |
| Issuance of Gaiam, Inc. common stock and share-based compensation | 734 | | | | | 734 | |
| Comprehensive loss: | | | | | | | |
| Net income (loss) | (2,072) | (2,072) | (2,134) | | | | 62 |
| Unrealized gains on investment, net of tax of \$128 | 232 | 232 | | 232 | | | |
| Foreign currency translation adjustment, net of taxes of \$4 | 11 | 11 | | (5) | | | 16 |
| Comprehensive loss | (1,829) | \$ (1,829) | | | | | |
| Balance at March 31, 2014 | \$ 104,195 | | \$ (68,547) | \$ 194 | \$ 3 | \$ 168,609 | \$ 3,936 |

5. Comprehensive Loss

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

| (in thousands) | Three Months Ended March 31, | |
|--------------------------|---------------------------------|-------------|
| | 2014 | 2013 |
| Before-tax amount | \$ 15 | \$ 3 |
| Tax benefit | (4) | (1) |
| Net-of-tax amount | \$ 11 | \$ 2 |

6. Share-Based Payments

During the first quarter of 2014, we granted 100,000 new options under our 2009 Long-Term Incentive Plans and extended the term of certain options granted to a member of our executive team for an additional year. Total share-based compensation expense recognized was \$0.6 million and \$0.2 million for the three months ended March 31, 2014 and 2013, respectively, and is reported in corporate, general and administration expenses on our condensed consolidated statements of operations.

7. Net Loss Per Share Attributable To Gaiam, Inc. Common Shareholders

Basic net loss per share attributable to Gaiam, Inc. common shareholders excludes any dilutive effects of options. We compute basic net loss per share attributable to Gaiam, Inc. common shareholders using the weighted average number of shares of common stock outstanding during the period. We compute diluted net loss per share attributable to Gaiam, Inc. common shareholders using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. We excluded common stock equivalents of 888,000 and 1,518,000 from the computation of diluted net loss per share attributable to Gaiam, Inc. common shareholders for the three months ended March 31, 2014 and 2013, respectively, because their effect was antidilutive.

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

| (in thousands, except per share data) | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2014 | 2013 |
| Net loss attributable to Gaiam, Inc. common shareholders: | | |
| Loss from continuing operations | \$ (2,160) | \$ (2,257) |
| Income from discontinued operations | 26 | 1,981 |
| Net loss attributable to Gaiam, Inc. | \$ (2,134) | \$ (276) |
| | | |
| Weighted average shares for basic net loss per share | 24,006 | 22,732 |
| Effect of dilutive securities: | | |
| Weighted average of common stock and stock options | | |
| | | |
| Weighted average shares for diluted net loss per share | 24,006 | 22,732 |
| | | |
| Net income (loss) per share attributable to Gaiam, Inc. common shareholders basic: | | |
| Income (loss) from continuing operations | \$ (0.09) | \$ (0.10) |
| Income from discontinued operations | 0.00 | 0.09 |
| Basic net income (loss) per share attributable to Gaiam, Inc. | \$ (0.09) | \$ (0.01) |
| | | |
| Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted: | | |
| Income (loss) from continuing operations | \$ (0.09) | \$ (0.10) |
| Income from discontinued operations | 0.00 | 0.09 |
| Diluted net income (loss) per share attributable to Gaiam, Inc. | \$ (0.09) | \$ (0.01) |

8. Income Taxes

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. For the quarter ended March 31, 2014, we continued to provide a valuation allowance against deferred tax assets generated during the quarter. As income is generated in future periods, the Company expects to reverse the valuation allowance as utilization of the deferred tax assets occurs.

9. Segment Information

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

channels.

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

Financial information for our segments is as follows:

| (in thousands) | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2014 | 2013 |
| Net revenue: | | |
| Direct to consumer | \$ 13,165 | \$ 11,271 |
| Business | 24,446 | 25,408 |
| Consolidated net revenue | 37,611 | 36,679 |
| Contribution income (loss): | | |
| Direct to consumer | (4,839) | (5,170) |
| Business | 2,361 | 2,014 |
| Consolidated contribution income (loss) | (2,478) | (3,156) |
| Reconciliation of contribution income (loss) to net loss attributable to Gaiam, Inc.: | | |
| Interest and other income (expense) | 38 | (31) |

| (in thousands) | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2014 | 2013 |
| Gain on sale of investment | 438 | |
| Income tax expense (benefit) | 96 | (984) |
| Income from discontinued operations | 26 | 1,981 |
| Net income attributable to noncontrolling interest | (62) | (54) |
| Net loss attributable to Gaiam, Inc. | \$ (2,134) | \$ (276) |

10. Discontinued Operations

During the fourth quarter of 2013, we consummated the sale of GVE Newco, LLC (GVE), a wholly-owned subsidiary of ours representing our non-branded entertainment media business and 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 are presented as discontinued operations in our financial statements and footnotes presented herein.

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

| (in thousands) | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2014 | 2013 |
| Net revenue | \$ 2,254 | \$ 19,954 |
| Income from operations before income taxes | 26 | 3,307 |
| Income tax expense | | 1,129 |
| Income from operations of discontinued operations | \$ 26 | \$ 1,981 |

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

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

Overview and Outlook

We 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 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.

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 15,000 locations worldwide.

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, wellness, personal growth and conscious media videos.

During the first quarter of 2014, the decrease in our business segment was primarily driven by the conversion of our media category management business from a licensed model to a distribution model in order to improve margins, simplify our business model and improve working capital and cash flow. This change reduces revenue without impacting gross profit. This segment also continues to benefit from growth in Gaiam Restore products, our at-home rehabilitative and restorative products, and our SPRI Dynamic Recovery brands along with the recent introduction of our SPRI Cross Train line of high-intensity fitness accessories, have broadened our offerings and will enable us to continue growing our brand this year. Due to our compliment of branded and non-branded products and our leading offering for fitness media, we have achieved category management and media aggregator roles and effectively manage the yoga and fitness offerings at some of the largest retailers in the nation.

During the first quarter of 2014, we continued the repositioning of our ecommerce and catalog product offerings towards more apparel and fitness. We are also continuing to invest in and market our digital platform, Gaiam TV.com, which will allow us to further leverage our existing subscriber base and catalog and Internet consumer relationships to grow our digital sales through the delivery of primarily exclusive media content.

On March 17, 2014, Gaiam announced that its Board of Directors agreed to pursue the separation of the Company's subscription unit from the Gaiam-branded business into two separate publicly traded companies. The Company currently expects the separation to take the form of a tax-free spin-off to shareholders. If approved and consummated, the separation of the subscription unit could materially change the operations, results and liquidity needs of the Company subsequent to the spin-off transaction.

Results of Operations

The table below summarizes certain of our results for the three months ended March 31, 2014 and 2013:

| (in millions, except per share data) | For the Three Months Ended | |
|---|----------------------------|---------|
| | March 31, | |
| | 2014 | 2013 |
| Net revenues | \$ 37.6 | \$ 36.7 |
| Gross profit | 17.0 | 15.7 |
| Selling and operating corporate, general and administration | 19.5 | 18.9 |
| Operating loss | (2.5) | (3.2) |
| Interest and other income (expense) | | |
| Gain on sale of investment | 0.4 | |
| Loss before taxes | (2.1) | (3.2) |
| Income tax expense (benefit) | | (1.0) |
| Income (loss) from continuing operations | 2.1 | (2.2) |
| Income from discontinued operations | | 2.0 |
| Net loss | (2.1) | (0.2) |
| Net (income) loss attributable to noncontrolling interest | | (0.1) |
| Net loss attributable to Gaiam, Inc. | (2.1) | (0.3) |

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

| | Three Months Ended | |
|---------------------------------------|--------------------|--------|
| | March 31, | |
| | 2014 | 2013 |
| Net revenue | 100.0% | 100.0% |
| Cost of goods sold | 54.7% | 57.1% |
| Gross profit | 45.3% | 42.9% |
| Expenses: | | |
| Selling and operating | 43.6% | 41.9% |
| Corporate, general and administration | 8.2% | 8.0% |
| Other general income and expense | % | 1.6% |

| | | |
|---|-------|-------|
| Total expenses | 51.8% | 51.5% |
| Income (loss) from operations | -6.5% | -8.6% |
| Interest and other income (expense) | 0.1% | -0.1% |
| Gain on sale on investment | 1.2% | % |
| Income (loss) before taxes | -5.2% | -8.7% |
| Income tax expense (benefit) | 0.3% | -2.7% |
| Income (loss) from continuing operations | -5.5% | -6.0% |
| Income (loss) from discontinued operations | -0.1% | 5.4% |
| Net (income) loss attributable to noncontrolling interest | -0.2% | -0.1% |
| Net loss attributable to Gaiam, Inc. | -5.6% | -0.7% |

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Net revenue. Net revenue increased \$1 million, or 2.5%, to \$37.6 million during the first quarter of 2014 from \$36.7 million during the first quarter of 2013. Net revenue in our business segment decreased \$1 million, or 3.8%, to \$24.4 million during the first quarter of 2014 from \$25.4 million during the first quarter of 2013, due primarily to the conversion of our media category management business from a licensed model to a distribution model in order to improve margin, simplify our business model and improve working capital and cash flow. This change reduces revenue without impacting gross profit. Net revenue in our direct

to consumer segment increased \$1.9 million, or 16.8%, to \$13.2 million during the first quarter of 2014 from \$11.3 million during the first quarter of 2013, primarily attributable to increased sales in our travel business and Gaiam TV's global digital subscription service.

Cost of goods sold. Cost of goods sold decreased \$0.3 million, or 1.6%, to \$20.6 million during the first quarter of 2014 from \$20.9 million during the first quarter of 2013. Cost of goods sold in our business segment decreased \$0.7 million, or 4.7%, to \$14.4 million during the first quarter of 2014 from \$15.1 million during the first quarter of 2013 and, as a percentage of net revenue, decreased to 58.8% during the first quarter of 2014 from 59.2% during the first quarter of 2013, primarily due to the conversion of our media category management business from a licensed model to a distribution model. Cost of goods sold in our direct to consumer segment increased \$0.3 million, or 5.7%, to \$6.2 million during the first quarter of 2014 from \$5.9 million during the first quarter of 2013 and, as a percentage of net revenue, decreased to 47.2% during the first quarter of 2014 from 52.1% during the first quarter of 2013, primarily reflecting the increase in sales in Gaiam TV.

Selling and operating expenses. Selling and operating expenses increased \$1 million, or 6.7%, to \$16.4 million during the first quarter of 2014 from \$15.4 million during the first quarter of 2013 and, as a percentage of net revenue, increased to 43.6% during the first quarter of 2014 from 41.9% during the first quarter of 2013, primarily due to additional investments in our digital subscription businesses.

Corporate, general and administration expenses. Corporate, general and administration expenses increased \$0.2 million, or 5.8%, to \$3.1 million during the first quarter of 2014 from \$2.9 million during the first quarter of 2013 and, as a percentage of net revenue, increased to 8.2% during the first quarter of 2014 from 8.0% during the first quarter of 2013.

Gain on sale of investment. Gain on sale of investment was \$0.4 million during the first quarter of 2014 and represented our gain on the sale of 100,000 shares of Real Goods Solar's stock during the quarter.

Interest and other income (expense). Interest and other income (expense) was income of \$38,000 during the first quarter of 2014 compared to expense of \$31,000 during the first quarter of 2013 as a result of a gain of our investment on foreign currency.

Income tax expense (benefit). Income tax expense during the first quarter of 2014 was \$0.1 million vs. a benefit of \$1.0 million for the first quarter of 2013. This increase in income taxes was due to a valuation allowance recorded against deferred tax assets in the quarter. Although the book value of these assets has been impaired, they remain available to offset future income.

Net loss attributable to Gaiam, Inc. As a result of the above factors, net loss attributable to Gaiam, Inc. was \$2.1 million, or \$0.09 per share, during the first quarter of 2014 compared to \$0.3 million, or \$0.01 per share, during the first quarter of 2013.

Seasonality

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

Liquidity and Capital Resources

Our capital needs arise from working capital required to fund operations, capital expenditures related to acquisition and development of media content, development and marketing of our ecommerce and digital platforms and new products, acquisitions of new businesses, replacements, expansions and improvements to our infrastructure, and future

growth. These capital requirements depend on numerous factors, including the rate of market acceptance of our product offerings, our ability to expand our customer base, the cost of ongoing upgrades to our product offerings, the level of expenditures for sales and marketing, the level of investment in distribution systems and facilities and other factors. The timing and amount of these capital requirements are variable and we cannot accurately predict them. Additionally, we will continue to pursue opportunities to expand our media libraries, evaluate possible investments in businesses, products and technologies, and increase our sales and marketing programs and brand promotions as needed. At March 31, 2014, our cash balance was \$29.5 million. Including our investment in Gaiam TV, we estimate that our capital expenditures will total approximately \$6.0 million for 2014.

Cash Flows

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

| (in thousands) | For the three Months ended March 31, | |
|--|---|-------------|
| | 2014 | 2013 |
| Net cash provided by (used in): | | |
| Operating activities continuing operations | \$ (2,445) | \$ 3,695 |
| Operating activities discontinued operations | 239 | 2,501 |
| Operating activities | (2,206) | 6,196 |
| Investing activities continuing operations | (770) | (973) |
| Investing activities discontinued operations | | (26) |
| Investing activities | (770) | (999) |
| Financing activities continuing operations | 193 | |
| Financing activities discontinued operations | | (7,903) |
| Financing activities | 193 | (7,903) |
| Effects of exchange rates on cash | 99 | (40) |
| Net increase (decrease) in cash | \$ (2,684) | \$ (2,746) |

Continuing Operations

Operating activities. Our continuing operating activities had a net cash usage of \$2.4 million and provided net cash of \$3.7 million during the first quarters of 2014 and 2013, respectively. Our net cash used by continuing operating activities during the first quarter of 2014 was primarily attributable to decreased accounts payable of \$3.3 million, decreased participations payable of \$3.5 million, decreased other current liabilities of \$2.2 million offset by decreased accounts receivable of \$7.6 million. Our net cash provided in continuing operating activities during the first quarter of 2013 was primarily attributable to decreased accounts receivable of \$3.1 million, decreased inventory of \$2.3 million, increased other current liabilities of \$1.3 million offset by decreased accounts payable of \$2.0 million and increased other current assets of \$1.1 million.

Investing activities. Our investing activities used net cash of \$0.8 million and \$1.0 million during the first quarters of 2014 and 2013, respectively. The net cash used in investing activities during the first quarter of 2014 was used primarily to for leasehold improvements for \$0.2 million, media content for \$0.3 million, and \$0.3 million for software development. The net cash used in investing activities during the first quarter of 2013 was used primarily to acquire property and equipment to maintain normal operations for \$0.4 million, media content for \$0.3 million, and to purchase partial ownerships of businesses for \$0.3 million, net of cash acquired

Financing activities. Our financing activities provided net cash of \$0.2 million for the first quarter of 2014. There were no financing activities in the first quarter of 2013. The net cash provided in financing activities during the first quarter of 2014 due to the issuance of Gaiam Common Stock from stock option exercises.

Discontinued Operations:

Operating activities. Our operating activities for discontinued operations provided net cash of \$0.2 million and \$2.5 million during the first quarters of 2014 and 2013, respectively. Our net cash provided by operating activities during the first quarter of 2014 was primarily attributable to decreased accounts receivable and inventory of \$1.0 million, and decreased accounts payable and accrued liabilities of \$0.8 million. Our net cash provided in operating activities during the first quarter of 2013 was primarily attributable to operating income of \$1.9 million, decreased accounts receivable of \$10.8 million, increased accounts payable and accrued liabilities of \$4.5 million, decreased other assets of \$0.3 million, offset by increased inventory of \$1 million, increased advances of \$2.3 million and decreased participations payable of \$11.7 million.

Investing activities. There were no investing activities for the first quarter of 2014 for our discontinued operations. For the first quarter of 2013 our investing activities for discontinued operations used \$26,000.

Financing activities. There were no financing activities for the first quarter of 2014 for our discontinued operations. For the first quarter of 2013, our financing activities used net cash of \$7.9 million. The net cash used in financing activities during the first quarter of 2013 was for the repayment of borrowings on our line of credit for \$7.9 million.

We currently have an effective shelf registration statement on file 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 statement.

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 operations, cash that could be raised by the sale of our shelf registration stock, Real Goods Solar's Class A common stock, Cinedigm's common stock, tax savings from available carried forward tax net operating losses, and borrowing capabilities should be sufficient to fund our operations on both a short-term and long-term basis. In addition, we own our corporate headquarters and could enter into a financing or sale/lease back transaction to provide additional funds. However, our projected cash needs may change as a result of acquisitions, product development, unforeseen operational difficulties or other factors.

Contractual Obligations

We have commitments pursuant to operating lease and media distribution agreements. The following table shows our commitments to make future payments or advances under these agreements as of March 31, 2014:

| (in thousands) | Total | < 1 year | 1-3 years | 3-5 years | > 5 years |
|-------------------------------|-----------|----------|-----------|-----------|-----------|
| Operating lease payments | \$ 2,826 | \$ 1,855 | \$ 971 | \$ | \$ |
| Media distribution advances | 8,000 | 3,750 | 4,250 | | |
| Total contractual obligations | \$ 10,826 | \$ 5,605 | \$ 5,221 | \$ | \$ |

Risk Factors

We wish to caution you that there are risks and uncertainties that could cause our actual results to be materially different from those indicated by forward looking statements that we make from time to time in filings with the Securities and Exchange Commission, news releases, reports, proxy statements, registration statements and other written communications as well as oral forward looking statements made from time to time by our representatives. These risks and uncertainties include those risks listed in our Annual Report on Form 10-K for the year ended December 31, 2013. Historical results are not necessarily an indication of the future results. Except for the historical information contained herein, the matters discussed in this analysis are forward-looking statements that involve risk and uncertainties, including, but not limited to, general economic and business conditions, competition, pricing, brand reputation, consumer trends, and other factors which are often beyond our control. We do not undertake any obligation to update forward-looking statements except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which include changes in U.S. interest rates and foreign exchange rates. We do not engage in financial transactions for trading or speculative purposes, but do have on occasion forward contracts for

foreign currency transactions and hold 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 March 31, 2014.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act. Based upon its evaluation as of March 31, 2014, our management has concluded that those disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION
Item 1. Legal Proceedings

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

Item 1A. Risk Factors

No material changes.

Item 5. Other Information

We expect to hold our annual shareholders meeting for 2014 in September.

Item 6. Exhibits

a) Exhibits.

| Exhibit No. | Description |
|------------------------|--|
| 31.1* | Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 |
| 31.2* | Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 |
| 32.1** | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. |

* Filed herewith

** Furnished herewith

SIGNATURES

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

Gaiam, Inc.
(Registrant)

May 9, 2014
Date

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

(authorized officer)

May 9, 2014
Date

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

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