

GAIAM, INC  
Form 10-K  
March 18, 2013  
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, 2012

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 \$61,827,784 as of June 30, 2012, 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, 2013, 17,330,464 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 2012 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, 2012

INDEX

	<b>Page Number</b>
<b><u>PART I</u></b>	3
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	10
Item 1B. <u>Unresolved Staff Comments</u>	14
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>	17
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>	58
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	58
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	58
Item 14. <u>Principal Accounting Fees and Services</u>	58
<b><u>PART IV</u></b>	58
Item 15. <u>Exhibits and Financial Statement Schedules</u>	58
<b><u>SIGNATURES</u></b>	61

---

**Table of Contents**

**PART I**

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

We are a lifestyle media and products company providing a broad selection of information, media, products and services to customers who value yoga, fitness, wellness, personal development, and responsible media. We offer our customers the ability to consume content and utilize merchandise based on these values while providing quality offerings at a price comparable to other alternatives. We market our content, media and products through a multi-channel approach including digital media channels, direct to consumers via catalogs, the Internet, direct response television, broadband, and subscriptions, as well as traditional retail stores. At the end of 2012, not counting digital channels, our products were carried by over 60,000 retail stores in the United States alone, and we had over 10 million direct customers.

We continue to elevate and expand growth of the Gaiam brand across a broad range of media and distribution channels. Our lifestyle brand is built around our ability to develop and offer media, content, products, and lifestyle services to consumers in the Yoga, Fitness, Wellness and Conscious Media markets. Our brand, products and media form the basis of our proprietary offerings, on which we realize our highest margins, which then drive demand for parallel product and service offerings. Our operations are vertically integrated from content creation, through product development and sourcing, to customer service and distribution. On December 31, 2011, as a result of a reduction in our voting ownership of Real Goods Solar, Inc. ( Real Goods Solar or RSOL ), we deconsolidated our solar segment and now only market our products and services across two segments: business and direct to consumer. We distribute the majority of our products from our fulfillment center. We also utilize a third party replication and fulfillment center for some of our media distribution in our business segment.

We intend to build off of our authenticity and heritage in the Yoga, Fitness, Wellness, Personal Development and Conscious Media sectors. We believe we can leverage our product and media strength to broaden our reach to consumers and expand our product and distribution assets in each of these sectors

**The Conscious Media Market**

We consider the Conscious Media market to consist of five distinct sectors:

***Personal Development.*** Informative and inspiring content that helps people to live a better life.

***Family Entertainment.*** Entertainment that can be enjoyed by the entire family.

***Documentaries.*** Educational and informational programming (people seeking truth and knowledge).

***Inspirational Entertainment.*** Entertainment that inspires people to expand their awareness and pursue positive changes in their lives.

***Children s.*** Children s entertainment and edutainment with a positive message.

---

## **Table of Contents**

### **Our Content**

Our business model revolves around content creation, which forms the basis for our proprietary products. We have an in-house production studio and team which produces programming that has earned approximately 129 Telly awards and several medals at the International New York Film Festival. We are fully high definition and 5.1 surround sound capable and do the majority of our authoring and editing in-house at our Colorado facility ensuring the quality standards that drive our awards. We also develop children's programming, which has been the recipient of several Parent's Choice and Kids First Awards recognizing new products that help children grow imaginatively, physically, and mentally. During 2012, we added 4,900 titles, increasing our owned and licensed media library to over 8,300 titles. Our content management systems allow us to port content to multiple relevant devices and platforms, allowing us to reach 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.

### **Our Products**

Our visual media programs represent an integral part of our proprietary product offering. In 2012, our proprietary products constituted over 70% of our product sales.

### **Our Sales Channels**

We conduct our business across two segments. Our business segment customers are primarily national retailers, corporate accounts and digital media. We conduct our direct to consumer business through our direct response marketing programs, ecommerce and subscription sales channels.

### ***Media***

We develop, produce and license information and programming targeted to consumers who value personal development, wellness, spirituality, and inspirational entertainment. We have an award-winning library of titles that we sell to retailers, license to selected distributors operating outside of the United States, and license or sublicense for broadcast and download. We have strategically partnered with other media companies and developed our own channel, Gaiam TV, to distribute our digital media content over the Internet and as apps for mobile devices such as iPads and other tablets. Our media partners include Google, YouTube, Amazon, Vudu, iTunes and Netflix. 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 our licensing of the rights to manufacture and distribute certain of our media lowers recognized revenue, we improve contribution margins and branding through this licensing. We intend to continue to seek new licensees for our brand internationally.

### ***DRTV***

We use direct response television ( DRTV ) marketing to promote LOHAS products and services, particularly those aimed at the fitness/wellness market. DRTV marketing is a highly-scalable distribution channel for segments of our LOHAS product suite, and also provides broad marketing support for our retail partners, as well as creating new direct customers to which we cross-market a wide range of LOHAS products and services via the Internet, and subscription segments. We capitalize on both long-form DRTV shows as well as leading home shopping channels such as QVC.

### ***Retailers***

Since the inception of our retailer channel in 1998, we have increased our breadth and diversity. As of the end of 2012, our media titles could be found in over 60,000 stores in the United States. We currently distribute for independent studios and 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; beauty stores such as Ulta; home furnishing stores such as Bed, Bath and Beyond, and Kohl's; natural food stores such as Whole Foods Market; sporting goods stores such as Dick's and Sports Authority; 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 has grown, partially driven by new stores within stores at Best Buy, to over 15,000 stores by the end of 2012. In 2008 we expanded our market reach to the professional health and fitness industry by purchasing SPRI Products, Inc.

Our branded products are found in Canada, Mexico, Japan, Italy, the United Kingdom and Australia. We sell our media products to international accounts primarily under licensing agreements.



## **Table of Contents**

### ***Ecommerce***

We use ecommerce to sell our products and to provide information on the LOHAS lifestyle. We promote our website through our Gaiam TV, visual media, catalogs, print publications, product packaging and Internet links. We provide customer support for ecommerce sales from our in-house call center as a key component of our ecommerce approach. Having an ecommerce presence and loyal customers is a competitive advantage as media moves to ecommerce through digital downloads 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.

### ***Subscription Services***

We offer a variety of subscription paid services. These services include online subscription clubs. We currently offer subscription services under the following clubs: Spiritual Cinema Circle, Gaiam TV, The Firm, Kettlenetics, and Gaiam Yoga Club. We are expanding our subscription services with subscription content, streaming services and online e-courses.

### ***Services***

We promote green energy through our 37.5% equity method investment in Real Goods Solar, who offers turnkey solar energy services, including the design, procurement, installation, grid connection, maintenance and referrals for third-party financing of solar energy systems. During 2008, Real Goods Solar consummated its initial public offering of its Class A common shares and has since completed acquisitions targeted toward expanding and enhancing its solar market. These acquisitions were Earth Friendly Energy Group Holdings LLC d/b/a Alteris Renewables, Inc. ( Alteris ), with multiple locations throughout the northeast region of the United States, and Regrid Power, Inc. and Independent Energy Systems, Inc., solar energy integrators located in California.

## **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 ecommerce and catalogs. We use our ecommerce 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 ecommerce 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 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.

### ***Established Infrastructure***

During 2010, we optimized and consolidated our distribution center near Cincinnati, Ohio, into one building, thereby realizing significant cost savings. 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



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

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.

---

## **Table of Contents**

### **Our Growth Strategies**

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

Proprietary and authentic content lies at the core of our business model. Our media offerings introduce customers to us and help establish us as an authority in the LOHAS market. 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 the content-centric strategy is a competitive advantage and the multi-channel approach allows us the broadest possible consumer reach. It also provides the optimal context for us to market lifestyle products that are appropriate companions to the media. We are becoming a multi-channel digital company. Our content and products will meet consumers wherever they are.

We will continue to develop authentic content that caters to the conscious media lifestyle and distribute it in DVD and digital formats, and also accelerate our efforts in the broadcast, international and online categories. During 2011, we expanded our licensing relationship with Oregon Scientific to include not only the fitness category, but also wellness. In 2012, we added some new personalities, such as The Biggest Loser star, Jillian Michaels, who has a track record of producing hit fitness media. We intend to continue to expand our brand to the Conscious Media market, which incorporates family, inspirational, edutainment and children's media. We believe we can establish our brand as a leading brand in some of these media categories.

We will continue our partnership with The Discovery Channel, which began in 2009, licensing Discovery branded content for sale in our retail channel and digitally on the Internet. We are the exclusive licensee for new launches of all the Discovery Channel DVDs, including all properties of Animal Planet, TLC, Discovery Channel, HD Theater, the Science Channel ID and The Military Channel. We will also have access to the entire Discovery branded library as the rights expire with their current licensees.

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 both one-shot purchase format or subscription services.

#### ***Transition to Digital Delivery of Media Products***

While the adoption of digital media is still in the early stages, we expect the transition from DVD to digital distribution of visual content to occur rapidly in the future. During the last few years, we digitized most of our media library and have obtained digital distribution partners such as Amazon, YouTube, Vudu, iTunes, Netflix and other major digital providers. Also, late in 2012, we moved out of beta our own digital delivery platform, called Gaiam TV (GaiamTV.com). Gaiam TV allows us to further leverage our existing subscriber base and catalog and Internet consumer relationships to grow our digital sales through the delivery of mostly exclusive media content. Gaiam TV subscribers are able to browse and stream extensive edutainment content, as well as create customized fitness and yoga playlists based on level of expertise, instructors, interests or desired time commitment. The platform accommodates multiple consumer access points, such as the Internet URL, iPad and iPhone, and a dedicated Roku channel, and recently we added access through Verizon Fios. 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 5,000 exclusive titles that consumers may download through digital retailers or stream via Gaiam TV. We intend to use all of our current sales platforms to introduce customers to our comprehensive digital offerings and clubs.

#### ***Expand our Entertainment Media Distributor and Aggregator Roles***

In March 2012, with the acquisition of Vivendi Entertainment, our entertainment media business grew to become the third largest non-theatrical content distributor in the United States with rights to over 8,000 titles. By combining the distribution operations of Gaiam and Vivendi Entertainment, we have realized synergies such as reduced operational costs and improved selling opportunities. While we did not realize the full effect of these synergies until late in 2012, we expect that the savings will contribute to stronger earnings in the years ahead. Additionally, we expanded our distribution business through new distribution and licensing contracts with the Hallmark Channel and The Jim Henson Company.

Also during 2012, we leveraged and expanded on our media aggregator role for Target, which began in late 2011, and other traditional retailers, as well as digital providers, and we have played a meaningful role in the transformation of the media market at both brick and mortar and digital retail outlets. We are also the only independent distributor with a direct relationship with Target, Walmart, and all meaningful retailers and digital content suppliers.

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

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

Our goal is to maintain our brand as an authority in the LOHAS market, and focus on our core heritage in yoga, fitness, wellness and personal development (including the conscious media market) We plan to strengthen our brand by 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, marketing the Gaiam brand, and aggressively developing and marketing proprietary products while maintaining our high level of customer service.

## **Table of Contents**

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

Based on Nielsen's Videoscan, since 2004 we more than doubled our U.S. DVD market share in the fitness/wellness category to approximately 42% in 2012. At the end of 2012, we were ranked 1st in the U.S. in the fitness DVD category. We first tested this concept with Target in 2008 and are now expanding the category management concept to other specialty channels. By assuming this category management role, we improved our revenues and profits as well as expanded exposure of the category. This category management program is currently in over 6,000 retail doors.

Based on the same Nielsen report, we ended 2012 3rd in the U.S. non-theatrical DVD category with a 13% market share behind only Warner and Disney. We intend to continue to grow our market share in the non-theatrical category through the production and acquisition of Conscious Media titles, focusing on edutainment, family and children's entertainment. We also plan to extend our line of offerings into wellness with solution based programming and media based kits, building store within store wellness offerings and continuing to grow our retail presence.

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

We believe we can improve our profit margins with several distinct strategies. We will continue to focus our sales strategy on media that carries over 70% gross margins. We continue to establish ourselves as a brand in the Conscious Media and wellness/fitness media market as well as in the edutainment genre. By continuing to grow our market share in media, we believe we can attract more independent studios to our media aggregator business model.

We entered the continuity and subscription market with our acquisition of Spiritual Cinema. This business carries over 80% gross margins and connects our media content directly to the consumer. We expect to continue to invest in this channel. We believe that with the increase in broadband acceptance 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 mainstream.

With our state-of-the-art, in-house studios and post production facilities, we will continue to focus on producing lower cost fitness media, LOHAS content for kits, online courses and web downloads. In addition, we have, and will continue to optimize our DRTV advertising and catalog circulation.

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

Excluding our partially owned subsidiaries, our proprietary products, which we introduced in 1997, represented approximately 70% of our revenues in fiscal year 2012. These products carry a higher margin, provide for branding opportunity and distinguish us from our competitors. We currently support a healthy lifestyle with proprietary products in yoga and fitness, active recovery, personal development, and healthy home. We have also expanded our exclusive media library to over 8,300 titles through acquisitions and internal development. We continue to develop and market proprietary products across the LOHAS sectors. We will continue to look for additional library 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 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 lifestyle products convenient regardless of the channel that a customer prefers. It also allows us to migrate 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 continuity basis. Additionally, this diversified, strategic approach should provide for continued operating 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 business we are open 24 hours a day, offering products on our Internet sites. The future of our direct business (catalog, ecommerce and subscription) is evolving as its platform changes to be more solutions-based versus transaction-based. 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 five solution-based segments: fitness/wellness; personal growth; relationships, green living, and responsible entertainment. In our business segment, we continue to expand our presence in national retailers and currently have placements in over 60,000 retail doors in the United States. We also continue to expand our store within store concept in a variety of stores, including Target, Dick's

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

Sporting Goods, Whole Foods Market, Best Buy, REI, Barnes & Noble Bookstores, Ulta, and other national retailers. We currently have over 15,000 stores within stores concepts. As digital has become more main stream, our strong relationships with retailers has allowed us to migrate our media and products to retailers Internet sales channels.

## **Table of Contents**

### ***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 add to our direct customer base. We especially focus on companies with media content, a strong brand identity and customer databases that augment our existing databases. 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**

During 2012, the business and direct to consumer segments represented 64.3% and 35.7% of our net revenues, respectively. Our business segment is dependent upon a few major customers for a significant portion of its revenues. See Note 13 to our consolidated financial statements for further information on our segments.

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. Accordingly, we have deconsolidated Real Goods Solar and reported it as an equity method investment on our consolidated balance sheets at December 31, 2012 and 2011 and on our consolidated statements of operations and cash flows for the year ended December 31, 2012. 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 each of the years ended December 31, 2011 and 2010, except for the removal of Real Goods Solar's cash balance at December 31, 2011 from the cash flow statement for the year ended December 31, 2011.

Since the deconsolidation of our solar segment, we now 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 DRTV, catalogs, ecommerce, and subscription services.

### **Our Intellectual Property**

Our tradename 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 42% market share and we are ranked 3rd in non-theatrical media with a 13% market share. We believe the principal competitive factors in the LOHAS market are authenticity of information, unique content and distinctiveness of products and services, quality of product, brand recognition and 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 include Warner Bros., Disney, Paramount, Fox, Lions Gate, Liberty Media, thousands of small, local and regional businesses, and product lines or items offered by large retailers, manufacturers, publishers and 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 content for the LOHAS market, particularly in the categories of fitness/wellness, eco-living and responsible media. 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, direct response television, catalogs, web subscriptions, or digital streaming. Our retail distribution currently reaches over 60,000 retail doors in the United States. 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 15,000 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 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 42% 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 fitness media in over 6,000 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. Additionally, we are the 3rd largest player in the non-theatrical market with a 13% market share according to Nielsen VideoScan.

**Owned Content.** As media content distribution moves 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 to as the online and mobile digital format becomes more mainstream.

### **Our Employees**

As of February 22, 2013, we employed approximately 321 full-time and 24 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, healthy lifestyles and environmental issues, 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.

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.



---

## **Table of Contents**

### **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.

#### ***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

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

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

---

## **Table of Contents**

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. A loss of one or more of the members of our senior management or key personnel 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, would continue to 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 668,682 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 77% 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 present indebtedness and potential future borrowings could adversely affect our financial health; future cash flows may not be sufficient to meet our obligations, and we may have difficulty obtaining additional financing.***

We have a revolving line of credit with outstanding borrowings and various letters of credit. There can be no assurance in the future whether we will generate sufficient cash flow from operations to meet our long-term debt service obligations. Our present indebtedness and potential future borrowings could have important adverse consequences to us, such as:

limiting our ability to obtain additional financing without restructuring the covenants in our existing indebtedness to permit the incurrence of such financing;

requiring a substantial portion of our cash flow to be used for payments on the debt and related interest, thereby reducing our ability to use cash flow to fund working capital, capital expenditures and general corporate requirements;

causing us to incur higher interest expense in the event of increases in interest rates on our borrowings that have variable interest rates or in the event of refinancing existing debt at higher interest rates;

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

limiting our ability to make asset or business investments, dispose of assets, pay cash dividends or repurchase stock;

placing us at a competitive disadvantage to competitors with less debt or greater resources; and

subjecting us to financial and other restrictive covenants in our indebtedness, the non-compliance with which could result in an event of default.

### ***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 Ecommerce 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 Ecommerce 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 Ecommerce. 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 ecommerce. 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 Ecommerce. 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 ecommerce 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 Ecommerce. 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.

### ***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 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***

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

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.



**Table of Contents**

*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 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.

**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**

<b>Locations</b>	<b>Size</b>	<b>Use</b>	<b>Lease Expiration</b>
Louisville, CO	149,044 sq. ft.	Headquarters and studios	Owned
Cincinnati, OH	208,120 sq. ft.	Fulfillment center	June 2013
New York, NY	12,700 sq. ft.	Media office	March 2015
Libertyville, IL	7,691 sq. ft.	Office	December 2014

Our existing fulfillment center lease has renewal options permitting the extension of the lease for up to an additional six years. 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, 2013, we had 4,561 shareholders of record and 17,330,464 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.

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

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

	High	Low	Close	Average Daily Volume
Fiscal 2012:				
Fourth Quarter	\$ 3.50	\$ 2.23	\$ 3.16	37,910
Third Quarter	\$ 4.02	\$ 3.26	\$ 3.49	18,895
Second Quarter	\$ 4.28	\$ 3.65	\$ 3.90	21,998
First Quarter	\$ 4.28	\$ 3.03	\$ 3.98	23,605
Fiscal 2011:				
Fourth Quarter	\$ 4.38	\$ 2.95	\$ 3.24	34,065
Third Quarter	\$ 5.13	\$ 3.18	\$ 3.39	56,128
Second Quarter	\$ 6.69	\$ 4.19	\$ 4.97	126,198
First Quarter	\$ 7.95	\$ 6.15	\$ 6.60	46,482

**Table of Contents****Issuer Purchases of Registered Equity Securities**

None.

**Dividend Policy**

We paid the 2010 and 2011 dividends during 2010. No dividends were paid during 2011 or 2012.

**Sales of Unregistered Securities**

None.

**Equity Compensation Plan Information**

The following table summarizes equity compensation plan information for our Class A common stock at December 31, 2012:

<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	1,406,450	\$ 5.61	2,246,221
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>1,406,450</b>	<b>\$ 5.61</b>	<b>2,246,221</b>

**Table of Contents**

**Stock Performance Graph**

The graph below shows, for the five years ended December 31, 2012, the cumulative total return on an investment of \$100 in our Class A common stock, assuming the investment was made on December 31, 2007, 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, 2007. 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.

\* \$100 invested on 12/31/07 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

**Table of Contents****Item 6. Selected financial data**

We derived the selected consolidated statement of operations data for the years ended December 31, 2012, 2011 and 2010 and consolidated balance sheet data as of December 31, 2012 and 2011 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, 2009 and 2008 and consolidated balance sheet data as of December 31, 2010, 2009 and 2008 set forth below from our audited consolidated financial statements which are not included in this Form 10-K. 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.

(in thousands, except per share data)	Years ended December 31,				
	2012 (c)	2011	2010	2009	2008 (b)
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$ 202,475	\$ 274,773	\$ 274,268	\$ 278,473	\$ 257,172
Cost of goods sold	86,371	157,912	138,438	134,370	107,927
Gross profit	116,104	116,861	135,830	144,103	149,245
<b>Expenses:</b>					
Selling and operating	102,867	110,008	117,152	131,659	142,401
Corporate, general and administration	10,980	13,291	12,534	13,225	13,059
Acquisition-related costs	1,667	2,393			
Other general income and expense		22,456			82,928
Total expenses	115,514	148,148	129,686	144,884	238,388
Income (loss) from operations	590	(31,287)	6,144	(781)	(89,143)
Interest and other income (expense)	(432)	(90)	1,291	(1,524)	1,216
Loss from equity method investment	(18,410)				
Loss from deconsolidation of subsidiary		(4,550)			
Gain from issuance of subsidiary stock					32,800
Income (loss) before income taxes and noncontrolling interest	(18,252)	(35,927)	7,435	(2,305)	(55,127)
Income tax expense (benefit)	(5,675)	(10,657)	2,366	(2,088)	(7,178)
Net income (loss)	(12,577)	(25,270)	5,069	(217)	(47,949)
Net (income) loss attributable to noncontrolling interest	(305)	398	(794)	513	12,123
Net income (loss) attributable to Gaiam, Inc.	\$ (12,882)	\$ (24,872)	\$ 4,275	\$ 296	\$ (35,826)
<b>Net income (loss) per share attributable to Gaiam, Inc. common shareholders:</b>					
Basic	\$ (0.57)	\$ (1.08)	\$ 0.18	\$ 0.01	\$ (1.47)
Diluted	\$ (0.57)	\$ (1.08)	\$ 0.18	\$ 0.01	\$ (1.47)
<b>Weighted-average shares outstanding:</b>					
Basic	22,703	23,126	23,226	23,306	24,452
Diluted	22,703	23,126	23,383	23,378	24,452

(in thousands)	As of December 31,				
	2012 (c)	2011 (c)	2010	2009	2008
<b>Consolidated Balance Sheet Data:</b>					

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

Cash (a)	\$ 9,858	\$ 14,545	\$ 28,773	\$ 48,325	\$ 31,965
Working capital	51,418	62,217	95,006	94,910	95,780
Total assets (b)	193,862	163,290	207,433	211,849	201,734
Total liabilities	74,990	32,116	38,671	44,322	33,452
Total equity (b)	118,872	131,174	168,762	167,527	168,282

- (a) During 2008 through 2011, we used \$23.5 million of cash to repurchase our common stock.
- (b) We restated certain amounts to reflect the correction of immaterial errors with regards to our subsidiary's 2008 income taxes. For 2008, income tax benefit was reduced by \$364 thousand, net loss attributable to noncontrolling interest was increased by \$161 thousand, net loss was increased by \$203 thousand, and net loss per share increased by \$0.01. From 2008 through 2010, total assets and total equity were each reduced by \$364 thousand. See Note 10 to our consolidated financial statements for 2012.
- (c) On December 31, 2011, as a result of a decrease in our ownership rights 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, 2012 and 2011 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. See Note 3 to our consolidated financial statements for 2012.

---

## **Table of Contents**

### **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, Ecommerce 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.

#### **Overview and Outlook**

We are a lifestyle media and products company providing a broad selection of information, media, products and services to customers who value yoga, fitness, wellness, personal development, and responsible media. We offer our customers the ability to consume content and utilize merchandise based on these values while providing quality offerings at a price comparable to other alternatives. We market our content, media and products through a multi-channel approach including digital media channels, direct to consumers via catalogs, the Internet, direct response television, broadband, and subscriptions, as well as traditional retail stores. At the end of 2012, not counting digital channels, our products were carried by over 60,000 retail stores in the United States alone, and we had over 10 million direct customers.

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

We market our products and services across two segments: business and direct to consumer. We distribute the majority of our products from our fulfillment center or drop-ship products directly to customers. We also utilize a third party replication and fulfillment center for media distribution in our business segment.

Our business segment sells directly to retailers and digital partners, with our products available in over 60,000 retail doors in the United States. At the end of 2012, our branded store within store presentations were in over 15,000 locations worldwide. During the third quarter of 2012, our business segment expanded the Gaiam brand with the strategic store within store placement of it in all Sports Authority stores and with the SPRI brand in 500 Sears stores. In 2008, we launched a media category management role that is part of our long term strategy and a key step in securing shelf space for media. We have now expanded this strategy to over 6,000 retail doors.

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

2012 was a pivotal year for Gaiam. We improved our financial results considerably at the same time as we invested in our future digital strategy and new digital subscription business. Our internal sales grew by 10.0% and our overall net revenue increased 22.3%. We generated Adjusted EBITDA of \$12.8 million and non-GAAP net income improved to \$0.6 million during 2012 compared to break-even Adjusted EBITDA and a loss of \$3.9 million during 2011 (refer to the Non-GAAP Financial Measures tables below). Our cash flow from operations grew to \$16.5 million during 2012. These results were achieved despite a nearly \$5.9 million operating loss in our digital subscription businesses as we

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

invested heavily in the development and launch out of beta of Gaiam TV, which is a key long-term digital media delivery strategy. These successes and investment strategies position us well for the many years to come.

During 2012, the improvement in our business segment was driven by internal revenue growth of approximately 25% that resulted from strong sales at our current retail partners, including Target fitness and Target media aggregator, as well as the addition of the new retail partnerships as mentioned above in the latter half of the year. The acquisition of media distributor Gaiam Vivendi Entertainment at the end of March 2012 added \$19.9 million in revenue and margin and afforded Gaiam a direct relationship with all major digital retailers that we will leverage across all our media titles. This segment also benefited from two new branded product lines: Gaiam Restore, our at-home rehabilitative and restorative accessories, and Gaiam Sol, our premium yoga line, both of which we launched during the fourth quarter of 2011. Also during 2012, this segment launched a major As Seen On TV fitness media product featuring The Biggest Loser star, Jillian Michaels, and other As Seen On TV titles, including The Firm Express. Due to our compliment of branded and private label products and our number one ranking on Nielsen's Videoscan 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.

In addition to our fitness accessory business, our business segment also distributes entertainment media titles owned by third-party studios and ourselves. We provide full distribution services including marketing, logistics, and sales to physical and online digital retailers. With the acquisition of Gaiam Vivendi Entertainment in March 2012, Gaiam's entertainment media business has grown to



---

## **Table of Contents**

become the third largest non-theatrical content distributor in the United States, behind only Warner and Disney, with rights to over 8,000 titles. By combining the distribution operations of both companies, we have begun to realize synergies, including reduced operational costs and improved selling opportunities. Overall, we believe the financial benefits of this acquisition strengthen our position as a leading branded lifestyle media company with extensive retailer, direct to consumer, and online sales channels. During the third quarter, we incurred certain redundant operational costs as we integrated the recently acquired Gaiam Vivendi Entertainment business. In the following months, we will be focused on finalizing the integration of Vivendi and pursuing additional growth through addition of new distribution and licensing contracts, such as what we have already done with Hallmark Channel and The Jim Henson Company, as well as expansion of sales to digital video providers.

During most of 2012, in our direct to consumer segment we strategically reduced media spend and, thus, optimized profitability rather than trying to drive revenue in our direct response television marketing business during the Olympic Games and political campaign season. Also, we plan to continue the repositioning of our ecommerce and catalog product offerings towards more apparel and fitness. In October 2012, we successfully transitioned our ecommerce business to a new more flexible and dynamic platform. 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.

### **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.

#### *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 collectibility 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 mainly consist of customer and marketing related assets. We review goodwill for impairment annually or more frequently if impairment indicators arise on a 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 reporting unit is less than its carrying amount. If it is determined that the fair value for a reporting unit is more likely than not greater than the carrying amount for that 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 reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, we consider the goodwill of the reporting unit not impaired. If the carrying amount of a 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**

### *Investments*

We account for investments in limited liability companies in which we have the ability to exercise significant influence or control, or in which we hold a five percent or more membership interest, under the equity method. We account for investments in corporations in which we have the ability to exercise significant influence or control, or in which we hold a twenty percent or more ownership, under the equity method. Under the equity method, we record our share of the income or losses of the investment by increasing or decreasing the carrying value of our investment and recording the income or expense through the consolidated statement of operations. Under the cost method of accounting, we carry investments in private companies at cost and adjust them only for other-than-temporary declines in fair value. Determining whether we have the ability to exercise significant influence or control over a company is highly subjective and requires a high degree of judgment.

### *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.

### *Media Library*

Our media library asset represents the fair value of the library of produced videos 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 direct-mail and online 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*

Presently, 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 Gaiam Vivendi Entertainment business and certain other 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 studio 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 11. 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.

**Table of Contents****Results of Operations**

The table below summarizes our year-end results for 2012 and 2011 pro forma (as if RSOL was deconsolidated):

(in millions except per share data)	2012	2011 (RSOL Deconsolidated) (c)	
Net revenues	\$ 202.5	\$	165.5
Gross profit	116.1		89.0
Operating expenses (a)	115.5		95.6
Operating income (loss) before 2011 non-cash goodwill impairment charge	0.6		(6.6)
2011 non-cash goodwill impairment charge			22.5
Loss from equity method investment in RSOL	18.4		0.7
<b>Adjusted EBITDA (b)</b>	<b>12.8</b>		<b>0.0</b>
<b>Non-GAAP net income (loss) attributable to Gaiam (b)</b>	<b>0.6</b>		<b>(3.9)</b>
Net loss attributable to Gaiam	(12.9)		(27.1)
Net loss per share attributable to Gaiam, Inc. shareholders	(0.57)		(1.17)

(a) Total operating expenses excluding a non-cash goodwill impairment charge of \$22.5 million for the year ended December 31, 2011.

(b) Non-GAAP Financial Measures can be found later in this Form 10-K.

(c) Supplemental Pro Forma Financial Information can be found later in this Form 10-K.

**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 statements of operations for year ended December 31, 2012 and as a consolidated subsidiary for the years ended December 31, 2011 and prior.

The unaudited pro forma consolidated statements of operations for the years ended December 31, 2011 and 2010 present our consolidated results of operations giving pro forma effect to the deconsolidation of Real Goods Solar as if it had occurred on January 1, 2010 (RSOL Deconsolidated). These pro forma financial statements should be read in connection with our historical consolidated financial statements for the years ended December 31, 2011 and 2010, which are 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.

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 Consolidated (b)	
	2012	2011	2010	2011	2010
Net revenue	\$ 202,475	\$ 165,516	\$ 196,944	\$ 274,773	\$ 274,268
Cost of goods sold	86,371	76,515	82,624	157,912	138,438

Edgar Filing: GAIAM, INC - Form 10-K

Gross profit	116,104	89,001	114,320	116,861	135,830
Expenses:					
Selling and operating	102,867	86,374	100,435	110,008	117,152
Corporate, general and administration	10,980	9,182	9,762	13,291	12,534
Acquisition-related costs	1,667			2,393	
Other general expense		22,456		22,456	
Total expenses	115,514	118,012	110,197	148,148	129,686
Income (loss) from operations	590	(29,011)	4,123	(31,287)	6,144
Interest and other income (expense)	(432)	94	1,276	(90)	1,291
Income (loss) from equity method investment in RSOL	(18,410)	(713)	465		
Loss from deconsolidation of RSOL				(4,550)	
Income (loss) before income taxes and noncontrolling interest	(18,252)	(29,630)	5,864	(35,927)	7,435
Income tax expense (benefit)	(5,675)	(2,948)	1,569	(10,657)	2,366
Net income (loss)	(12,577)	(26,682)	4,295	(25,270)	5,069
Net (income) loss attributable to noncontrolling interest	(305)	(454)	(232)	398	(794)
Net income (loss) attributable to Gaiam, Inc.	\$ (12,882)	\$ (27,136)	\$ 4,063	\$ (24,872)	\$ 4,275
Net income (loss) per share attributable to Gaiam, Inc. common shareholders:					
Basic	\$ (0.57)	\$ (1.17)	\$ 0.17	\$ (1.08)	\$ 0.18
Diluted	\$ (0.57)	\$ (1.17)	\$ 0.17	\$ (1.08)	\$ 0.18
Weighted average shares outstanding:					
Basic	22,703	23,126	23,226	23,126	23,226
Diluted	22,703	23,126	23,383	23,126	23,383

**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)	
	2012	2011	2010	2011	2010
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	42.7%	46.2%	41.9%	57.5%	50.5%
Gross profit	57.3%	53.8%	58.1%	42.5%	49.5%
Expenses:					
Selling and operating	50.8%	52.2%	51.0%	40.0%	42.7%
Corporate, general and administration	5.4%	5.5%	5.0%	4.8%	4.6%
Acquisition-related costs	0.8%	%	%	0.9%	%
Other general expense	%	13.6%	%	8.2%	%
Total expenses	57.0%	71.3%	56.0%	53.9%	47.3%
Income (loss) from operations	0.3%	-17.5%	2.1%	-11.4%	2.2%
Interest and other income (expense)	-0.2%	0.0%	0.7%	0.0%	0.5%
Income (loss) from equity method investment in RSOL	-9.1%	-0.4%	0.2%	%	%
Loss from deconsolidation of RSOL	%	%	%	-1.7%	%
Income (loss) before income taxes and noncontrolling interest	-9.0%	-17.9%	3.0%	-13.1%	2.7%
Income tax expense (benefit)	-2.8%	-1.8%	0.8%	-3.9%	0.8%
Net (income) loss attributable to noncontrolling interest	-0.2%	-0.3%	-0.1%	0.1%	-0.3%
Net income (loss) attributable to Gaiam, Inc.	-6.4%	-16.4%	2.1%	-9.1%	1.6%

(a) As if Real Goods Solar was deconsolidated effective January 1, 2010 and accounted for as an equity method investee.

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

**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 \$37.0 million, or 22.3%, to \$202.5 million during 2012 from \$165.5 million during 2011. Net revenue in our business segment increased \$41.9 million, or 47.5%, to \$130.2 million during 2012 from \$88.3 million during 2011, due to better sales performance at our top 25 retailers that contributed to an internal revenue growth of approximately 25% and our acquisition of media distributor Gaiam Vivendi Entertainment at the end of March 2012. Net revenue in our direct to consumer segment decreased \$5.0 million, or 6.4%, to \$72.3 million during 2012 from \$77.3 million during 2011, primarily attributable to decreased sales in our direct response marketing business due to our strategic reduction of media spend and, thus, optimization of profitability as opposed to revenue during the Olympic Games and political campaign season. Including Real Goods Solar, net revenue decreased \$72.3 million, or 26.3%, during 2012 from \$274.8 million during 2011.

*Cost of goods sold.* Excluding Real Goods Solar, cost of goods sold increased \$9.9 million, or 12.9%, to \$86.4 million during 2012 from \$76.5 million during 2011 and, as a percentage of net revenue, decreased to 42.7% during 2012 from 46.2% during 2011. Cost of goods sold in our business segment increased \$10.5 million, or 22.1%, to \$57.8 million during 2012 from \$47.3 million during 2011 and, as a percentage of net revenue, decreased to 44.4% during 2012 from 53.6% during 2011, primarily due to a shift in product sales mix resulting from our Gaiam Vivendi Entertainment business that has no cost of goods sold. Cost of goods sold in our direct to consumer segment decreased \$0.6 million, or 2.1%, to \$28.6 million during 2012 from \$29.2 million during 2011 and, as a percentage of net revenue, increased to 39.5% during 2012 from 37.8% during 2011, primarily due to reduced revenue in our direct response marketing business that typically generates lower associated cost of goods sold. Including Real Goods Solar, cost of goods sold decreased \$71.5 million, or 45.3%, during 2012 from \$157.9 million during 2011.

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

*Selling and operating expenses.* Excluding Real Goods Solar, selling and operating expenses increased \$16.5 million, or 19.1%, to \$102.9 million during 2012 as compared to \$86.4 million during 2011 and, as a percentage of net revenue, decreased to 50.8% during 2012 from 52.2% during 2011, primarily due to the acquisition of Gaiam Vivendi Entertainment, partially offset by an additional investment of \$3.9 million in our digital subscription businesses. Including Real Goods Solar, selling and operating expenses decreased \$7.1 million, or 6.5%, during 2012 from \$110.0 million during 2011.

**Table of Contents**

*Corporate, general and administration expenses.* Excluding Real Goods Solar, corporate, general and administration expenses increased \$1.8 million, or 19.6%, to \$11.0 million during 2012 as compared to \$9.2 million during 2011 and, as a percentage of net revenue, decreased slightly to 5.4% compared to 5.5% during 2011, primarily as a result of nonrecurring Gaiam Vivendi Entertainment integration and transition costs and the incremental cost of stock option modifications. Including Real Goods Solar, corporate, general and administration expenses decreased \$2.3 million, or 17.4%, during 2012 from \$13.3 million during 2011.

*Acquisition-related costs.* Acquisition-related costs were \$1.7 million during 2012 and were the result of our acquisition of Gaiam Vivendi Entertainment. Acquisition-related costs were \$2.4 million during 2011 and were comprised of 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 and the reduction of the carrying value of our loans to Real Goods Solar.

*Net loss attributable to Gaiam, Inc.* As a result of the above factors, net loss attributable to Gaiam, Inc. was \$12.9 million, or \$0.57 per share, during 2012 compared \$24.9 million, or \$1.08 per share, during 2011. Excluding our acquisition-related costs and loss from equity method investment, including its related income tax benefits, our non-GAAP net income for 2012 was \$0.6 million or \$0.03 per share. Our Adjusted EBITDA for 2012 was \$12.8 million compared to break-even for 2011. (Refer to the Non-GAAP Financial Measures tables below.)

**Year Ended December 31, 2011 Compared to Year Ended December 31, 2010**

*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 decreased \$31.4 million, or 16.0%, to 165.5 million during 2011 from \$196.9 million during 2010. Net revenue in our business segment decreased \$9.0 million, or 9.2%, to \$88.3 million during 2011 from \$97.2 million during 2010, primarily due to low in-stock levels at our largest retail customer which were not fully resolved until late May, an ineffective third party fulfillment program with our second largest retail customer that we abandoned and returned to a direct relationship by the end of July, fewer As Seen On TV products offered at our retailers, and the absence of sales to Borders resulting from its bankruptcy during the second quarter of 2011, partially offset by increased revenue from our media aggregator role with that commenced in September 2011. Net revenue in our direct to consumer segment decreased \$22.4 million to \$77.3 million during 2011 from \$99.7 million during 2010, primarily attributable to a \$21.8 million sales declines resulting from our previously disclosed plans to lower spending for direct response television advertising. Net revenue in our former solar segment increased \$31.9 million to \$109.3 million during 2011 from \$77.3 million during 2010, primarily attributable to the segment's acquisition of Alteris. Including Real Goods Solar, net revenue increased \$0.5 million, or 0.2%, to \$274.8 million during 2011 from \$274.3 million during 2010.

*Cost of goods sold.* Excluding Real Goods Solar, cost of goods sold decreased \$6.1 million, or 7.4%, to \$76.5 million during 2012 from \$82.6 million during 2010 and, as a percentage of net revenue, increased to 46.2% during 2011 from 41.9% during 2010. Cost of goods sold in our business segment decreased \$0.1 million, or 0.2%, to \$47.3 million during 2011 from \$47.4 million during 2010 and, as a percentage of net revenue, increased to 53.6% during 2011 from 48.8% during 2010, primarily due to a shift in product sales mix as a result of our media aggregator role. Cost of goods sold in our direct to consumer segment decreased \$6.0 million, or 17.1%, to \$29.2 million during 2011 from \$35.2 million during 2010 and, as a percentage of net revenue, increased to 37.8% during 2011 from 35.3% during 2010, primarily reflecting increased revenue in our higher cost ecommerce business, partially offset by reduced revenue in our lower cost direct response television business. Cost of goods sold in our former solar segment increased \$25.6 million, or 45.8%, to \$81.4 million during 2011 from \$55.8 million during 2010 and, as a percentage of net revenue, increased to 74.5% during 2011 from 72.2% during 2010, primarily due to increased revenue from our higher cost commercial installations. Including Real Goods Solar, cost of goods sold increased \$19.5 million, or 14.1%, to \$157.9 million during 2011 from \$138.4 million during 2010.

*Selling and operating expenses.* Excluding Real Goods Solar, selling and operating expenses decreased \$14.1 million, or 14.0%, to \$86.4 million during 2011 from \$100.4 million during 2010. As a percentage of net revenue, selling and operating expenses increased to 52.2% during 2011 from 51.0% during 2010. This decrease is primarily the result of reducing direct response television advertising and catalog circulation, partially offset by an ineffective third party fulfillment program with our second largest retail customer that we abandoned and returned to a more



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

profitable direct relationship by the end of July, costs to develop and launch our Gaiam TV and digital delivery strategies, and the opening of a flagship retail store. Including Real Goods Solar, selling and operating expenses decreased \$7.1 million, or 6.1%, to \$110.0 million during 2011 from \$117.2 million during 2010.

**Table of Contents**

*Corporate, general and administration expenses.* Excluding Real Goods Solar, corporate, general and administration expenses decreased \$0.6 million, or 5.9%, to \$9.2 million during 2011 from \$9.8 million during 2010. As of percentage of net revenue, corporate, general and administration expenses increased to 5.5% during 2011 from 5.0% during 2010 reflecting fixed cost efficiencies. Including Real Goods Solar, corporate, general and administration expenses increased \$0.8 million, or 6.0%, to \$13.3 million during 2011 from \$12.5 million during 2010.

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

*Other general expense.* Other general expense was \$22.5 million during 2011 and represented a noncash goodwill impairment charge related to our business segment that was necessitated by the trading price of our stock.

*Loss from deconsolidation of subsidiary.* Loss from deconsolidation of subsidiary was \$4.5 million during 2011 and reflects the noncash remeasurement to fair value of our investment in Real Goods Solar necessitated by the decrease in our voting ownership to approximately 37.5% and the resulting conversion of our accounting for Real Goods Solar from consolidated subsidiary to equity method investee.

*Income tax benefit.* Income tax benefit during 2011 was increased by \$7.1 million due to the reducing of a deferred tax liability related to our equity method investment in Real Goods Solar as a result of our deconsolidation and remeasurement to fair value of this investment, reduced by \$8.1 million related to the impairment of nondeductible goodwill, and reduced by \$0.5 million due to certain nondeductible acquisition-related costs incurred by Real Goods Solar for the Alteris acquisition that for tax purposes were capitalized into the basis of the stock investment.

*Net income (loss) attributable to noncontrolling interest.* Net loss attributable to noncontrolling interest was \$0.4 million during 2011 compared to net income of \$0.8 million during 2010 primarily as a result of acquisition-related costs incurred by our former solar segment and its consolidation of the not yet integrated and optimized Alteris.

*Net income (loss) attributable to Gaiam, Inc.* As a result of the above factors, net loss attributable to Gaiam, Inc. was \$24.9 million during 2011 compared to net income of \$4.3 million during 2010. Net loss per share attributable to Gaiam, Inc. common shareholders was \$1.08 per share during 2011 compared to net income of \$0.18 per share during 2010. Excluding our subsidiary's acquisition-related costs, goodwill impairment charge, and loss on deconsolidation of Real Goods Solar, our net loss for 2011 was \$3.2 million or \$0.14 per share. (Refer to the Non-GAAP Financial Measures table below.)

**Non-GAAP Financial Measures For Adjusted EBITDA**

The Company has utilized the non-GAAP information set forth below as an additional device to aid in understanding and analyzing its financial results for the years ended December 31, 2012 and 2011. The Company believes that these non-GAAP measures will allow for a better evaluation of the operating performance of the business and facilitate meaningful comparison of the results in the current period to those in the prior period and future periods. Reference to these non-GAAP measures should not be considered a substitute for results that are presented in a manner consistent with GAAP.

A reconciliation of the GAAP net loss to the non-GAAP earnings before share-based compensation, acquisition-related costs, goodwill impairment charge, interest, earnings from equity method investment, loss from deconsolidation of subsidiary, income taxes, depreciation and amortization ( Adjusted EBITDA ) is set forth below (unaudited, in millions):

	For the Year Ended December 31, 2012	Pro Forma RSOL Deconsolidated For the Year Ended December 31, 2011	RSOL Consolidated For the Year Ended December 31, 2011
Net loss	\$ (12.6)	\$ (26.7)	\$ (25.3)
Exclusion of income tax benefit	(5.6)	(3.0)	(10.6)
Exclusion of loss from deconsolidation of RSOL			4.5
Exclusion of loss from equity method investment in RSOL	18.4	0.7	
Exclusion of interest and other expense (income)	0.4	(0.1)	0.1
Exclusion of goodwill impairment charge		22.5	22.5

Edgar Filing: GAIAM, INC - Form 10-K

Exclusion of acquisition-related costs	1.7		2.4
Exclusion of share-based compensation	1.0	1.0	1.5
Exclusion of depreciation and amortization	9.5	5.6	6.6
Non-GAAP Adjusted EBITDA	\$ 12.8	\$ 0.0	\$ 1.7

**Table of Contents****Non-GAAP Financial Measures For Net Income (Loss) Attributable to Gaiam, Inc.**

We have utilized the non-GAAP information set forth below as an additional device to aid in understanding and analyzing of our financial results for the years ended December 31, 2012 and 2011. We believe that these non-GAAP measures will allow for a better evaluation of the operating performance of our business and facilitate meaningful comparison of the results in the current period to those in prior periods and future periods. Reference to these non-GAAP measures should not be considered a substitute for results that are presented in a manner consistent with GAAP.

The unaudited pro forma non-GAAP information for the year ended December 31, 2011 presents our consolidated results giving pro forma effect to the deconsolidation of Real Goods Solar as if it had occurred on January 1, 2010 (Pro Forma RSOL Deconsolidated). This pro forma financial information should be read in connection with our historical consolidated financial information 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.

A reconciliation of GAAP net loss attributable to Gaiam, Inc. to the non-GAAP net income (loss) attributable to Gaiam, Inc. is set forth below as indicated (unaudited, in millions):

	For the Year Ended December 31, 2012	Pro Forma RSOL Deconsolidated For the Year Ended December 31, 2011	RSOL Consolidated For the Year Ended December 31, 2011
Net loss attributable to Gaiam, Inc.	\$ (12.9)	\$ (27.1)	\$ (24.9)
Exclusion of acquisition-related costs (a)	1.1		1.8
Exclusion of goodwill impairment charge		22.5	22.5
Exclusion of loss from equity method investment in RSOL (b)	12.4	0.7	
Exclusion of loss from deconsolidation of RSOL (c)			(2.6)
Non-GAAP net income (loss) attributable to Gaiam, Inc.	\$ 0.6	\$ (3.9)	\$ (3.2)

A reconciliation of GAAP net loss per share to the non-GAAP net income (loss) per share attributable to Gaiam, Inc. is set forth below as indicated (unaudited, shares in millions):

	For the Year Ended December 31, 2012	Pro Forma RSOL Deconsolidated For the Year Ended December 31, 2011	RSOL Consolidated For the Year Ended December 31, 2011
Net loss per share attributable to Gaiam, Inc. common shareholders diluted	\$ (0.57)	\$ (1.17)	\$ (1.08)
Exclusion of acquisition-related costs per share (a)	0.05		0.08
Exclusion of goodwill impairment charge per share		0.97	0.97
Exclusion of loss from equity method investment in RSOL per share (b)	0.55	0.03	
Exclusion of loss from deconsolidation of RSOL per share (c)			(0.11)
	\$ 0.03	\$ (0.17)	\$ (0.14)

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

Non-GAAP net income (loss) per share attributable to Gaiam, Inc. common  
shareholders diluted

Weighted average shares used in net income (loss) per share calculations diluted	22.7	23.1	23.1
--	------	------	------

**Table of Contents**

- (a) Net of taxes of \$0.6 million, or \$0.03 per share, and at an effective tax rate of approximately 35.5% for the year ended December 31, 2012. Net of taxes of \$0.6 million, or \$0.02 per share, and at Real Goods Solar's effective tax rate of approximately 40.1% after permanent differences of \$1.0 million for the year ended December 31, 2011.
- (b) Net of related deferred tax asset adjustment of \$6.0 million, or \$0.27 per share, for the year ended December 31, 2012. Income taxes were computed at an effective tax rate of approximately 35.5%.
- (c) Net of taxes of \$7.1 million, or \$0.31 per share, and at an effective tax rate of approximately 35.5%.

**Quarterly and Seasonal Fluctuations**

The following tables set forth our unaudited results of operations for each of the quarters in 2012 and 2011. Since RSOL was not deconsolidated until December 31, 2011, for better comparison purposes, we have presented the 2011 quarters both on a pro forma basis assuming RSOL instead had been deconsolidated on January 1, 2011 (RSOL Deconsolidated) and on a US GAAP basis with RSOL deconsolidated on December 31, 2011 (RSOL Consolidated). 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. Additionally, 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.

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)	RSOL Deconsolidated Year 2012 Quarters Ended			
	March 31	June 30	September 30 (a)	December 31
Net revenue	\$ 47,333	\$ 45,446	\$ 42,983	\$ 66,713
Gross profit	27,106	28,011	24,071	36,916
Loss from equity method investment	(696)	(944)	(15,940)	(830)
Income (loss) before income taxes and noncontrolling interests	(1,935)	(3,033)	(16,303)	3,019
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
Diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders	\$ (0.05)	\$ (0.09)	\$ (0.49)	\$ 0.07
Weighted average shares outstanding-diluted	22,698	22,702	22,704	22,706

(in thousands, except per share data)	RSOL Deconsolidated Year 2011 Quarters Ended			
	March 31	June 30	September 30	December 31 (b)
Net revenue	\$ 37,387	\$ 30,755	\$ 41,747	\$ 55,627
Gross profit	20,831	17,242	24,061	26,867
Loss before income taxes and noncontrolling interests	(1,563)	(5,821)	(1,095)	(21,151)
Net loss	(964)	(3,994)	(890)	(20,834)
Net loss attributable to Gaiam, Inc.	(1,006)	(3,868)	(1,142)	(21,120)
Diluted net loss per share attributable to Gaiam, Inc. common shareholders	\$ (0.04)	\$ (0.17)	\$ (0.05)	\$ (0.93)
Weighted average shares outstanding-diluted	23,301	23,314	23,205	22,691

(in thousands, except per share data)	RSOL Consolidated Year 2011 Quarters Ended			
	March 31	June 30	September 30	December 31 (b)
Net revenue	\$ 54,812	\$ 50,709	\$ 73,333	\$ 95,919
Gross profit	25,860	22,602	31,914	36,485
Loss before income taxes and noncontrolling interests	(1,509)	(7,113)	(1,655)	(25,650)
Net loss	(941)	(4,978)	(1,189)	(18,162)
Net loss attributable to Gaiam, Inc.	(1,000)	(4,141)	(1,229)	(18,502)
Diluted net loss per share attributable to Gaiam, Inc. common shareholders	\$ (0.04)	\$ (0.18)	\$ (0.05)	\$ (0.82)

Weighted average shares outstanding-diluted	23,301	23,314	23,205	22,691
---	--------	--------	--------	--------

## Table of Contents

- (a) 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.
- (b) During the quarter ended December 31, 2011, we recorded a noncash, goodwill impairment charge of \$22.5 million, a noncash loss on deconsolidation of subsidiary of \$4.5 million, and an income tax benefit of \$7.1 million related to the remeasurement to fair value of our equity method investment in Real Goods Solar. See Notes 3 and 6 to our consolidated financial statements for 2012.

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.

## **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. We estimate that our capital expenditures will total approximately \$2.3 million for 2013.

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 Credit Agreement) with PNC Bank, N.A. (PNC), as agent and lender. Borrowings are secured by a pledge of the Borrowers' assets and our ownership interests in the Borrowers. The Credit Agreement provides for a revolving line of credit of up to \$35 million (\$26 million April 1st through June 30th of each calendar year), subject to borrowing base and related limitations. Subject to certain limitations, the principal amount of the revolving loan is due and payable on the earlier of July 30, 2015 or upon the termination of the Credit Agreement.

For advances that are not Eurodollar rate loans, referred to as domestic rate loans in the Credit Agreement, annual interest will accrue at a rate equal to 0.75% plus the higher of (i) PNC's stated commercial lending rate in effect on such day, (ii) the Federal Funds Open Rate (as defined in the Credit Agreement; essentially the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as published by Bloomberg) in effect on such day plus 0.5%, and (iii) the sum of the Daily LIBOR Rate (as defined in the Credit Agreement; essentially the rate resulting from dividing (x) the daily London Interbank Offered Rates published in the Wall Street Journal for a one month period by (y) a number equal to 1.00 minus the Board of Governors of the Federal Reserve System's reserve percentage with respect to eurocurrency funding) in effect on such day plus 1.0%. The Borrowers may also obtain Eurodollar rate loans under the revolving line of credit. Eurodollar rate loans will accrue annual interest at a rate equal to the sum of 2.25% plus the Eurodollar Rate (as defined in the Credit Agreement; essentially the rate resulting from dividing (x) the rates at which US dollar deposits are offered by leading banks in the London interbank deposit market as published by Bloomberg, by (y) a number equal to 1.00 minus the Board of Governors of the Federal Reserve System's reserve percentage with respect to eurocurrency funding). Interest will be payable monthly in arrears for domestic rate loans and at the end of each interest period for Eurodollar rate loans. Upon and after the occurrence of an event of default, and during the continuation thereof, at the option of PNC or at the direction of a certain specified number of lenders, outstanding advances will bear interest at the interest rate set forth above for domestic rate loans plus 2% per year.

The Borrowers paid a fee of \$175,000 to PNC in consideration for entering into the Credit Agreement and will pay PNC a fee equal to 0.5% per year on the undrawn amount of the revolving line of credit. The Credit Agreement permits voluntary prepayments of amounts borrowed and reductions or terminations of the revolving commitments pursuant to notice requirements. The Borrowers must also prepay the advances in amounts equal to the net proceeds of certain sales of collateral and the net proceeds of certain issuances of equity interest or indebtedness. The Borrowers must pay an early termination fee equal to 2% of the maximum amount of the revolving line of credit if the Borrowers prepay all advances before July 31, 2013, and an early termination fee equal to 1% of the maximum amount of the revolving line of credit if the Borrowers prepay all advances before July 31, 2014. The Credit Agreement subjects the Company to certain customary affirmative covenants and customary restrictive covenants, including, but not limited to, restrictions on the Company's ability to incur additional indebtedness, create liens, make investments, pay dividends, and merge. In addition, the Credit Agreement contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, and covenant defaults. If an event of default occurs and is continuing, amounts due under the Credit Agreement may be accelerated and the rights and remedies of the lenders under the Credit Agreement may be



exercised.

**Table of Contents**

In conjunction with entering into the Credit Agreement, on August 1, 2012, we paid in full the outstanding balance owed to our prior senior lender, Wells Fargo Bank, National Association, in the amount of approximately \$14.1 million and terminated the underlying Amended and Restated Credit Agreement, dated July 29, 2005, between Gaiam and Wells Fargo.

As of December 31, 2012, the outstanding borrowings on the Credit Agreement were approximately \$16.2 million at an average annual interest rate of approximately 3.53% and the amount reserved for outstanding letters of credit and other reserves was \$12.6 million.

**Cash Flows**

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

(in thousands)	Years ended December 31,		
	2012	2011	2010
Net cash provided by (used in):			
Operating activities	\$ 16,476	\$ 5,240	\$ (4,952)
Investing activities	(18,190)	(10,793)	(8,701)
Financing activities	(3,055)	(8,630)	(5,930)
Effects of exchange rates on cash and cash equivalents	82	(45)	31
Net decrease in cash and cash equivalents	\$ (4,687)	\$ (14,228)	\$ (19,552)

*Operating activities.* Our operating activities provided net cash of \$16.5 million and \$5.2 million during 2012 and 2011, respectively. Our net cash provided by operating activities during 2012 was primarily attributable to our net loss as adjusted by our noncash transactions of \$10.1 million and increased accounts payable and participations payable of \$13.4 million and accrued liabilities of \$1.1 million, partially offset by increased inventory, deferred advertising costs, advances and accounts receivable of \$2.6 million, \$2.0 million, \$1.9 million, and \$1.3 million, respectively. Our net cash provided by operating activities during 2011 was primarily attributable to noncash adjustment to net loss of \$23.7 million, increased accounts payable, participations payable, and accrued liabilities of \$14.0 million, and decreased accounts receivable of \$2.2 million, partially offset by the net loss of \$25.3 million and increased other current assets, inventory, deferred advertising costs, and advances of \$4.0 million, \$3.2 million, \$1.3 million, and \$0.9 million, respectively.

*Investing activities.* Our investing activities used net cash of \$18.2 million and \$10.8 million during 2012 and 2011, respectively. The net cash used in investing activities during 2012 was used primarily for the \$13.4 million cash portion of the purchase price for Gaiam Vivendi Entertainment, to acquire property and equipment for \$2.7 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 \$0.2 million. The net cash used by investing activities during 2011 was primarily attributable to the deconsolidation of our solar subsidiary's cash of \$11.8 million on December 31, 2011, acquired property and equipment to maintain normal operations of \$2.5 million, building improvements in preparation for leasing of \$1.7 million, and media content of \$1.6 million, partially offset by cash acquired from our solar subsidiary's acquisition of Alteris of \$3.4 million, collection on a note receivable of \$2.7 million, and release of restricted cash of \$0.7 million.

*Financing activities.* Our financing activities used net cash of \$3.1 million and \$8.6 million during 2012 and 2011, respectively. The net cash used by financing activities during 2012 was primarily used for the repayment of a promissory note for \$18.7 million in connection with the acquisition of Gaiam Vivendi Entertainment and for our travel subsidiary's dividend payment to the noncontrolling interest of \$0.6 million, partially offset by net borrowings on a revolving line of credit of \$16.2 million, the funds from which were mainly used towards the acquisition of Gaiam Vivendi Entertainment and its related expenses. Our net cash used in financing activities during 2011 was primarily the result of repayments of Alteris' line of credit and debt and capital lease borrowings of \$5.3 million, repurchase of 628,003 of our Class A common shares for a total cost of \$2.3 million, and Real Goods Solar's repurchase of 379,400 of its Class A common shares for a total cost of \$1.1 million, partially offset by cash provided by stock option exercise issuances and their related tax benefits of \$0.1 million.

On January 11, 2011, we renewed a shelf registration statement on Form S-3 with the Securities and Exchange Commission for 5,000,000 shares of our Class A common stock that we originally registered on November 8, 2007. During 2012 and 2011, no shares were issued under this shelf registration. Assuming an average sale price, net of broker fees, of \$3.50 per share, the sale of all 5,000,000 shares could raise cash of \$17.5 million.

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

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 and/or equity investment of 10,000,000 shares of Real Goods Solar's Class A common stock, 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. 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 and media distribution agreements. The following table shows our commitments to make future payments or advances under these agreements as of December 31, 2012:

(in thousands)	Total	< 1 year	1-3 years	3-5 years	> 5 years
Operating lease payments	\$ 3,192	\$ 1,646	\$ 1,519	\$ 27	\$
Media distribution advances	10,282	7,892	2,390		
Total contractual obligations	\$ 13,474	\$ 9,538	\$ 3,909	\$ 27	\$

**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, 2012.

We have a revolving line of credit with outstanding borrowings and various letters of credit. Accordingly, any unfavorable change in interest rates could have a material impact on our results from operations or cash flows. As of December 31, 2012, if either of our Credit Agreement's Eurodollar, LIBOR, PNC's stated commercial, or Federal Funds Open Rates were to increase by one percentage point, our annual interest expense would increase by approximately \$0.2 million, assuming constant debt levels.

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>	37
<b>Financial Statement Schedule:</b>	
<u>Schedule II Consolidated valuation and qualifying accounts</u>	56

---

**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, 2012 and 2011 and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule II for the years ended December 31, 2012, 2011, and 2010. We also have audited the Company's internal control over financial reporting as of December 31, 2012 based on criteria established in *Internal Control-Integrated Framework* issued 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. 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 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, 2012 and 2011 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In our opinion, the related financial statement schedule II for the years ended December 31, 2012, 2011, and 2010, 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, 2012 based on the COSO Criteria.

/s/ EKS&H LLLP

March 18, 2013

Denver, Colorado



**Table of Contents****GAIAM, INC.****Consolidated balance sheets**

(in thousands, except share and per share data)	December 31,	
	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash	\$ 9,858	\$ 14,545
Accounts receivable, net	57,533	31,113
Inventory, less allowances	29,840	29,205
Deferred advertising costs	4,324	3,303
Deferred tax assets	9,129	6,686
Receivable from equity method investee	64	2,176
Advances	13,197	5,336
Other current assets	2,463	1,969
<b>Total current assets</b>	<b>126,408</b>	<b>94,333</b>
Property and equipment, net	23,998	23,664
Media library, net	13,090	14,576
Deferred tax assets	14,692	12,636
Goodwill	9,405	2,673
Other intangibles, net	5,608	569
Equity method investment		14,300
Other assets	661	539
<b>Total assets</b>	<b>\$ 193,862</b>	<b>\$ 163,290</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Line of credit	\$ 16,231	\$
Accounts payable	26,738	21,069
Participations payable	28,046	7,851
Accrued liabilities	3,975	3,196
<b>Total current liabilities</b>	<b>74,990</b>	<b>32,116</b>
Commitments and contingencies		
Equity:		
Gaiam, Inc. shareholders' equity:		
Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 17,330,464 and 17,297,844 shares issued and outstanding at December 31, 2012 and 2011, 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, 2012 and 2011	1	1
Additional paid-in capital	159,614	158,773
Accumulated other comprehensive income	118	113
Accumulated deficit	(43,661)	(30,779)
<b>Total Gaiam, Inc. shareholders' equity</b>	<b>116,074</b>	<b>128,110</b>
Noncontrolling interest	2,798	3,064
<b>Total equity</b>	<b>118,872</b>	<b>131,174</b>
<b>Total liabilities and equity</b>	<b>\$ 193,862</b>	<b>\$ 163,290</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)	Years Ended December 31,		
	2012 (a)	2011 (a)	2010 (a)
Net revenue	\$ 202,475	\$ 274,773	\$ 274,268
Cost of goods sold	86,371	157,912	138,438
Gross profit	116,104	116,861	135,830
Expenses:			
Selling and operating	102,867	110,008	117,152
Corporate, general and administration	10,980	13,291	12,534
Acquisition-related costs	1,667	2,393	
Other general expense		22,456	
Total expenses	115,514	148,148	129,686
Income (loss) from operations	590	(31,287)	6,144
Interest and other income (expense)	(432)	(90)	1,291
Loss from equity method investment	(18,410)		
Loss from deconsolidation of subsidiary		(4,550)	
Income (loss) before income taxes and noncontrolling interest	(18,252)	(35,927)	7,435
Income tax expense (benefit)	(5,675)	(10,657)	2,366
Net income (loss)	(12,577)	(25,270)	5,069
Net (income) loss attributable to noncontrolling interest	(305)	398	(794)
Net income (loss) attributable to Gaiam, Inc.	\$ (12,882)	\$ (24,872)	\$ 4,275
Net income (loss) per share attributable to Gaiam, Inc. common shareholders:			
Basic	\$ (0.57)	\$ (1.08)	\$ 0.18
Diluted	\$ (0.57)	\$ (1.08)	\$ 0.18
Weighted average shares outstanding:			
Basic	22,703	23,126	23,226
Diluted	22,703	23,126	23,383

(a) RSOL was deconsolidated and accounted for as an equity method investment effective December 31, 2011. Consequently, RSOL is reported as an equity method investment for the year ended December 31, 2012 and as a consolidated subsidiary for the years ended December 31, 2011 and 2010.

If RSOL had been deconsolidated as of January 1, 2010, on a pro forma basis, net revenue, net income (loss) attributable to Gaiam, Inc., and net income (loss) per share would have been \$165.5 million, (\$27.1 million), and (\$1.17 per share) for 2011, respectively, and \$196.9 million, \$4.1 million, and \$0.18 per shares for 2010, respectively.

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

See Supplemental Pro Forma Financial Information on page 21 of this Form 10-K.

See accompanying notes to consolidated financial statements.

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

(in thousands)	Years Ended December 31,		
	2012	2011	2010
Net income (loss)	\$ (12,577)	\$ (25,270)	\$ 5,069
Other comprehensive income (loss), foreign currency translation, net of related tax	10	(2)	58
Comprehensive income (loss)	(12,567)	(25,272)	5,127
Less: comprehensive income (loss) attributable to the noncontrolling interest	310	(399)	823
Comprehensive income (loss) attributable to Gaiam, Inc	\$ (12,877)	\$ (24,873)	\$ 4,304

See accompanying notes to consolidated financial statements.

**Table of Contents****GAIAM, INC.****Consolidated statement of changes in equity**

(in thousands, except shares)	Gaiam, Inc. Shareholders							
	Total Equity	Total Gaiam Equity	Accumulated Deficit	Accumulated Other Comprehensive Income	Common Stock Amount	Additional Paid-in Capital	Common Stock Shares	Noncontrolling Interest
Balance at December 31, 2009	\$ 167,527	\$ 152,438	\$ (10,182)	\$ 85	\$ 3	\$ 162,532	23,121,212	\$ 15,089
Issuance of Gaiam, Inc. common stock in conjunction with acquisitions and share-based compensation	1,943	1,943				1,943	177,709	
Issuance of subsidiary common stock in conjunction with acquisitions and share-based compensation	358	176				176		182
Distribution of dividend	(6,966)	(6,966)				(6,966)		
Adjustments due to business acquisitions	773	(75)				(75)		848
Comprehensive income	5,127	4,304	4,275	29				823
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

See accompanying notes to consolidated financial statements.



**Table of Contents****GAIAM, INC.****Consolidated statements of cash flows**

(in thousands)	Years ended December 31,		
	2012	2011	2010
<b>Operating activities:</b>			
Net income (loss)	\$ (12,577)	\$ (25,270)	\$ 5,069
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	2,358	3,085	3,089
Amortization	7,130	3,497	4,552
Share-based compensation expense	1,013	1,540	1,609
Deferred and stock option income tax expense (benefit)	(6,120)	(11,464)	1,857
Loss (gain) on translation of foreign currency	(76)	55	
Loss on equity method investment	18,410		
Goodwill impairment loss		22,456	
Loss on deconsolidation of subsidiary		4,550	
Gain on re-measurement of equity investment to estimated fair value immediately prior to business combination			(977)
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable, net	(1,301)	2,186	(4,151)
Inventory, net	(2,637)	(3,233)	(5,508)
Deferred advertising costs	(1,982)	(1,314)	(1,403)
Receivable from equity method investee	412		
Advances	(1,924)	(934)	(4,392)
Other current assets	(595)	(4,006)	2,018
Accounts payable	5,661	5,412	(3,871)
Participations payable	7,705	4,515	(1,779)
Accrued liabilities	999	4,165	(1,065)
Net cash provided by (used in) operating activities	16,476	5,240	(4,952)
<b>Investing activities:</b>			
Purchase of property, equipment and media rights	(3,814)	(5,827)	(8,701)
Purchase of businesses	(13,546)		
Related party loan, net	(830)		
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 used in investing activities	(18,190)	(10,793)	(8,701)
<b>Financing activities:</b>			
Net borrowings (payments) on revolving lines of credit	16,231	(3,119)	
Principal payments on debt	(18,703)	(2,254)	
Payment of dividends	(583)		(6,966)
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 proceeds from issuance of stock and tax benefits from option exercises		77	1,036
Net cash used in financing activities	(3,055)	(8,630)	(5,930)
Effect of exchange rates on cash	82	(45)	31

Edgar Filing: GAIAM, INC - Form 10-K

Net decrease in cash	(4,687)	(14,228)	(19,552)
Cash at beginning of year	14,545	28,773	48,325
Cash at end of year	\$ 9,858	\$ 14,545	\$ 28,773
<b>Supplemental cash flow information:</b>			
Interest paid	\$ 468	\$ 195	\$ 1
Income taxes paid	673	535	414
Liabilities and debt assumed from acquisitions	14,277	21,709	647

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.

#### **Conversion of Real Goods Solar to Equity Method Investee**

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. Accordingly, we deconsolidated Real Goods Solar and reported it as an equity method investment on our consolidated balance sheet at December 31, 2011. 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 each of the years ended December 31, 2011 and 2010, except for the removal of Real Goods Solar's cash balance at December 31, 2011 from the cash flow statement for the year ended December 31, 2011. See Note 3. Equity Method Investment and Receivable From Investee.

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

No changes were made to our significant accounting policies during the year ended December 31, 2012, except for added disclosure on how we recognize revenue for our media distribution agent fees. This change did not have and is not expected to have in the future a material impact on our financial results.

We have evaluated events subsequent to December 31, 2012 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 demand deposit accounts with financial institutions that are denominated in U.S. dollars and foreign currencies. 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 concentration of credit risk in our accounts receivable because two of our top customers, Target and Walmart, accounted for 47.6% of accounts receivable, net as of December 31, 2012. These customers are major retailers 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 collectibility of our accounts receivable by analyzing historical bad debts, specific customer creditworthiness, and current economic trends. The allowance for doubtful accounts was \$0.7 million and \$0.9 million as of December 31, 2012 and 2011, 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.

#### *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.



## **Table of Contents**

### *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, 2012 and 2011, we estimated obsolete or slow-moving inventory to be \$1.6 million and \$0.9 million, respectively.

### *Advertising Costs*

Deferred advertising costs relate to the preparation, printing, advertising and distribution of infomercials and catalogs. We defer such costs for financial reporting purposes until the catalogs and infomercials are distributed and advertised, 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 \$25.5 million, \$27.2 million, and \$37.7 million for the years ended December 31, 2012, 2011, and 2010, 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 as part of selling and operating expense 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.

### *Advances*

Advances represent amounts prepaid to studio and content producers for which we provide media distribution services and to talent involved with our media productions. Such advances are recoupable against future fees owed to the respective studio or content producer based upon the terms of their agreements.

At December 31, 2012, we have media distribution agreements that require us to make future guaranteed advances as follows (in thousands):

2013	\$ 7,892
2014	2,150
2015	240
	\$ 10,282

### *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 limited liability companies in which we have the ability to exercise significant influence or control, or in which we hold a five percent or more membership interest, under the equity method. We account for investments in corporations in which we have the ability to exercise significant influence or control, or in which we hold a twenty percent or more ownership, under the equity method. Under the equity method, we record our share of the income or losses of the investment by increasing or decreasing the carrying value of our investment and recording the income or expense through the consolidated statement of operations. Under the cost method of accounting, we carry investments in private companies at cost and adjust only for other-than-temporary declines in fair value. We include investments under the cost method in notes receivable and other assets.

*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.

---

## **Table of Contents**

### *Media Library*

Our media library asset represents the estimated fair value of our library of produced videos acquired through business combinations, the purchase price of media rights to both video and digital titles, and the 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 \$30.1 million and \$27.5 million at December 31, 2012 and 2011, respectively, which is being amortized over the estimated useful life of the titles, which range from five to fifteen years. Additionally, during 2013 we anticipate incurring approximately \$10.0 million in royalties related to acquired and produced media content.

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 2012, capitalized production cost for released titles was approximately \$1.2 million, and for those titles not yet released was approximately \$0.1 million. Additionally, as of December 31, 2012, we estimate that approximately \$5.1 million or 54.5% of the unamortized costs for released titles will be amortized during 2013, and approximately 86.1% of the unamortized costs for released titles will be amortized within the next three years. Accumulated amortization for produced media content at December 31, 2012 and 2011 was approximately \$16.2 million and \$15.0 million, respectively. Amortization expense for produced media content for the years ended December 31, 2012, 2011 and 2010 was \$1.2 million, \$1.2 million and \$1.7 million, respectively.

Our acquired media rights have \$3.6 million of remaining unamortized costs as of December 31, 2012 that will be amortized on a straight-line basis over 12 to 84 months. Amortization expense for acquired and purchased media rights for the years ended December 31, 2012, 2011, and 2010 was \$1.5 million, \$1.9 million, and \$1.3 million, respectively. Based upon the acquired media titles and rights at December 31, 2012, we expect the annual amortization expense for the next five years to approximate \$2.6 million per annum.

Based on total media library costs at December 31, 2012 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 \$0.7 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 mainly consist of customer and marketing related assets. We review goodwill for impairment annually or more frequently if impairment indicators arise on a 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 reporting unit is less than its carrying amount. If it is determined that the fair value for a reporting unit is more likely than not greater than the carrying amount for that 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 reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, we consider the goodwill of the reporting unit not impaired. If the carrying amount of a 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, 2010 through December 31, 2012 by segment.

(in thousands)	Direct to Consumer Segment	Business Segment	Solar Segment	Total
Balance at December 31, 2010	\$ 2,673	\$ 22,456	\$ 732	\$ 25,861
Acquisitions			19,153	19,153
Impairment losses recognized		(22,456)		(22,456)
Deconsolidation of subsidiary			(19,885)	(19,885)
Balance at December 31, 2011	2,673			2,673
Acquisitions		6,732		6,732
Balance at December 31, 2012	\$ 2,673	\$ 6,732	\$	\$ 9,405

The following table represents our other intangibles subject to amortization by major class as of December 31, 2012 and 2011.

(in thousands)	As of December 31,	
	2012	2011
<b>Customer related:</b>		
Gross carrying amount	\$ 9,514	\$ 914
Accumulated amortization	(3,910)	(426)
	\$ 5,604	\$ 488
<b>Marketing related:</b>		
Gross carrying amount	\$ 576	\$ 576
Accumulated amortization	(572)	(495)
	\$ 4	\$ 81

The amortization periods range from 24 to 84 months. Amortization expense for the years ended December 31, 2012 and 2011 was \$3.5 million and \$0.4 million, respectively. Based on the December 31, 2012 balance of other intangibles, we estimate amortization expense to be \$2.7 million for 2013, \$1.6 million for 2014, \$0.9 million for 2015, \$0.3 million for 2016, and \$0.1 million 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 studios/content producers for which we provide media distribution services and to talent involved with our media productions.

*Income Taxes*

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

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*

Presently, 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 Gaiam Vivendi Entertainment business and certain other 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 studio 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 11. 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, and during the year ended December 31, 2012, we made matching contributions of \$0.2 million to the 401(k) plan.

### *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), and foreign currency translation adjustments, net of income taxes.

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

<b>(in thousands)</b>	<b>For the Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Before-tax amount	\$ 14	\$ (3)	\$ 83
Tax expense (benefit)	4	(1)	25
<b>Net-of-tax amount</b>	<b>\$ 10</b>	<b>\$ (2)</b>	<b>\$ 58</b>

### *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 1,387,000, 1,306,000 and 416,000 from the computation of diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders for 2012, 2011 and 2010, 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,		
	2012	2011	2010
Numerator for basic and diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders	\$ (12,882)	\$ (24,872)	\$ 4,275
Denominator:			
Weighted average shares for basic net income (loss) per share attributable to Gaiam, Inc. common shareholders	22,703	23,126	23,226
Effect of dilutive securities:			
Weighted average of common stock and stock options			157
Denominators for diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders	22,703	23,126	23,383
Net income (loss) per share attributable to Gaiam, Inc. common shareholders basic	\$ (0.57)	\$ (1.08)	\$ 0.18
Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted	\$ (0.57)	\$ (1.08)	\$ 0.18

*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. Equity Method Investment and Receivable From Investee**

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. This conversion was done in accordance with the terms of a Shareholders Agreement dated December 19, 2011 entered into with Riverside Renewable Energy Investments, LLC, the majority owner of Earth Friendly Energy Group Holdings LLC d/b/a Alteris Renewables, Inc. ( "Alteris" ), in connection with Real Goods Solar's acquisition of Alteris and no consideration was exchanged. As a result, our voting ownership in Real Goods Solar declined to 37.5% and, therefore, we changed our reporting for this investment from consolidation to equity method. In conjunction with this deconsolidation of Real Goods Solar, at December 31, 2011 we remeasured and adjusted our equity investment in Real Goods Solar to its estimated fair value based on Real Goods Solar's closing stock price on December 30, 2011 (which is a level 1 input in the fair value hierarchy), and, thus, reported a pre-tax loss from deconsolidation of \$4.5 million and, due to an adjustment to a deferred tax liability related to this investment, an after-tax gain of \$2.6 million in our consolidated results of operations for the year ended December 31, 2011. See Note 12. Income Taxes.

In connection the Real Goods Solar's acquisition of Alteris, we advanced Real Goods Solar \$1.7 million on December 30, 2011, which bears interest at an annual rate of 10% if not repaid on or before its maturity date. On November 13, 2012, we entered into a Loan Commitment with Real Goods Solar and Riverside to extend the maturity date for this loan from December 30, 2012 to April 30, 2013 provided Real Goods Solar repaid all interest owed on the loan upon extension. In addition, Riverside and we each agreed to advance up to an additional \$1.0 million in cash upon request from Real Goods Solar until March 31, 2013 at an annual interest rate of 10% and with a maturity date of April 26, 2013, which was funded by both of us during December 2012. Further, the Loan Commitment requires Real Goods Solar to execute and deliver to us an option agreement, reasonably acceptable to both parties, permitting us to purchase for \$0.2 million all tenant improvements constructed by us in the office space leased by Real Goods Solar from us.

Our loss from equity investment (RSOL) for the year ended December 31, 2012 was comprised of our noncash portion, \$17.0 million, of Real Goods Solar's net loss for 2012, which included goodwill, net deferred tax assets, and other asset impairment noncash charges of \$38.1 million, and a \$1.6 million valuation allowance for a deferred tax asset related to our Tax Sharing Agreement with RSOL, partially offset by \$0.2 million of interest received from RSOL on our first loan to RSOL. The recording of our portion of RSOL's net loss for 2012 reduced the carrying values of our equity method investment in and loans to Real Good 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. Also, in connection with these transactions, we recognized an income tax benefit of \$6.0 million. See Note 12. Income Taxes. Including the related income tax benefit, the net impact to us of these equity investment related

transactions was a noncash loss of \$12.4 million.

**Table of Contents**

Under our Intercorporate Services Agreement with Real Goods Solar, we provide services under the direction of Real Goods Solar and have no power to act independently on Real Goods Solar's behalf other than as specifically authorized under the agreement or from time to time by Real Goods Solar. Real Goods Solar and we agree on the aggregate annual amount for a particular year for the services based upon a good faith estimate of the services required for that year and the estimated fees for such services. Upon a change to the annual amounts for a particular year, the parties make appropriate payments to reflect such change. The annual amount and formula for various services making up the annual amount, as well as any quarterly changes, are approved in writing by each of our and Real Goods Solar's board of directors.

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, 2012, \$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, as discussed above, 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.

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 \$16,300 plus common area maintenance and tax expenses. As part of the Loan Commitment discussed above, Real Goods Solar and we agreed to cancel, effective December 31, 2012, the \$3 per square foot credit set forth in this lease.

The receivable from equity method investee at December 31, 2012 represents amounts owed in the ordinary course of business under our Intercorporate Services and Industrial Building Lease Agreements with Real Goods Solar. Charges under these agreements are typically billed and collected at least quarterly.

At December 31, 2012, we owned approximately 37.5% of Real Goods Solar's Class A common stock with an estimated fair value of \$7.6 million based on the closing market price of Real Goods Solar's Class A common stock on December 31, 2012. At December 31, 2012, our equity in the net assets of Real Goods Solar was approximately \$1.5 million.

Summarized financial information for our equity method investee, Real Goods Solar, is as follows:

(in thousands)	December 31,	
	2012	2011
Current assets	\$ 38,317	\$ 56,859
Noncurrent assets	3,991	32,690
<b>Total assets</b>	<b>\$ 42,308</b>	<b>\$ 89,549</b>

(in thousands)	December 31,	
	2012	2011
Current liabilities	\$ 37,940	\$ 38,108
Noncurrent liabilities	443	635
<b>Total liabilities</b>	<b>\$ 38,383</b>	<b>\$ 38,743</b>

(in thousands)	For the Year Ended December 31,	
	2012	2011

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

Net revenue	\$ 92,891	\$ 109,257
Gross profit	23,032	27,860
Net loss	(47,206)	(1,900)

### 4. Mergers and Acquisitions

On March 28, 2012, we obtained 100% of the voting equity interests of VE Newco, LLC ( Gaiam Vivendi Entertainment ), a subsidiary comprised of the former Vivendi Entertainment division of Universal Music Group Distribution, Corp. ( UMG ), pursuant to a Purchase Agreement dated March 6, 2012, as amended, between UMG and one of our subsidiaries. Gaiam Vivendi Entertainment, with its exclusive distribution rights agreements with large independent studios/content providers, distributes entertainment content through home video, digital and television distribution channels.

**Table of Contents**

The provisional total consideration transferred was \$32.1 million and was comprised of \$13.4 million in cash and a \$18.7 million non-interest bearing, 90 day promissory note ( Note ) representing the carrying value of Gaiam Vivendi Entertainment's working capital. Under the terms of the Note and other related Gaiam Vivendi Entertainment acquisition agreements, UMG collected the pre-closing accounts receivable of Gaiam Vivendi Entertainment for a 90 day period following the closing date of the acquisition and applied those collections to the Note, with any excess remitted to Gaiam Vivendi Entertainment. By mid-June 2012, UMG had collected enough funds from Gaiam Vivendi Entertainment's pre-closing accounts receivable to fully satisfy the Note. The consideration excluded \$1.7 million of expenses that were reported as acquisition-related costs in our consolidated statement of operations for the year ended December 31, 2012. The acquisition also effectively settled a preexisting media distribution relationship between Gaiam Vivendi Entertainment and us, resulting in the elimination upon consolidation of certain accounts receivable, participations payable and inventory balances.

We acquired Gaiam Vivendi Entertainment, with its distribution rights to over 3,000 media titles, to materially strengthen our existing media distribution services platform, enhance our digital relationships and elevate us to the third largest non-theatrical content distributor in the United States. With the combined scale of Gaiam Vivendi Entertainment's and our existing distribution operations, we expect to realize significant operational and financial synergies, including reduced third-party distribution costs and lower post-production and digital distribution costs, which are projected to increase our gross margins. These anticipated strategic benefits are the primary contributors to goodwill resulting from the acquisition.

The estimated purchase price and fair values of assets acquired and liabilities assumed are provisional and are based on currently available information. We believe that information provides a reasonable basis for estimating the consideration transferred and the fair values of assets acquired and liabilities assumed, but we are waiting for additional information necessary to finalize those amounts. Therefore, the provisional purchase price and measurements of fair value reflected below are subject to change. We expect to finalize the purchase price and determine valuations and complete the purchase price allocation as soon as practicable, but no later than one year from the acquisition date. Any goodwill identified is attributable to our business segment and is deductible for tax purposes.

The following table summarizes the provisional estimated purchase price and fair values of Gaiam Vivendi Entertainment's acquired net assets, which are additions to our business segment's net assets.

<b>(in thousands)</b>	<b>March 28, 2012</b>
Accounts receivable	\$ 25,113
Advances	5,903
Other current assets	32
Goodwill	6,732
Customer relationship intangibles	8,600
 Total assets	 46,380
Participations payable	(12,013)
Accrued liabilities	(2,264)
 Net assets acquired	 \$ 32,103

At March 28, 2012, with regards to the acquired accounts receivable, the gross contractual amount receivable was \$44.0 million, the estimated fair value was \$25.1 million, and the best estimate of the contractual cash flows not expected to be collected was \$18.9 million due to estimated sales returns. The acquired other intangibles are comprised entirely of customer relationships, the fair values of which were determined using traditional discounted future cash flow models. The useful lives assigned to these intangibles are 5 years, with each year's amortization expense based on its estimated proportionate amount of the estimated total discounted future cash flows for these intangibles.

We included Gaiam Vivendi Entertainment's results of operations in our consolidated financial statements from March 28, 2012. Consequentially, \$19.9 million net revenue and \$3.6 million of net income attributable to Gaiam Vivendi Entertainment are included in our consolidated statement of operations for the year ended December 31, 2012.

The following tables contain supplemental unaudited pro forma information for the Gaiam Vivendi Entertainment acquisition as if we had acquired this business on January 1, 2011. RSOL was not deconsolidated until December 31, 2011 and, thus, the 2011 supplemental unaudited

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

pro forma information below reflects RSOL on a as if deconsolidated effective January 1, 2011 basis in the first table and on a consolidated basis for 2011 in the second table. The pro forma net losses were decreased by \$2.2 million and \$2.7 million for the years ended December 31, 2012 and 2011, respectively, to reflect the removal of amortization related to Gaiam Vivendi Entertainment's pre-acquisition intangibles, less amortization related to intangibles resulting from our acquisition of Gaiam Vivendi Entertainment. The pro forma adjustments were based on available information and upon assumptions that we believe were reasonable in order to reflect, on a supplemental pro forma basis, the impact of this acquisition on our historical financial information.

**Table of Contents**

(in thousands, except per share data)	RSOL Deconsolidated For 2011 Supplemental Pro Forma (Unaudited) For the Year Ended December 31,	
	2012	2011
Net revenue	\$ 211,516	\$ 199,284
Net loss attributable to Gaiam, Inc.	\$ (11,229)	\$ (26,912)
Net loss per share basic	\$ (0.49)	\$ (1.16)
Net loss per share diluted	\$ (0.49)	\$ (1.16)

(in thousands, except per share data)	RSOL Consolidated For 2011 Supplemental Pro forma (Unaudited) For the Year Ended December 31,	
	2012	2011
Net revenue	\$ 211,516	\$ 308,541
Net loss attributable to Gaiam, Inc.	\$ (11,229)	\$ (24,648)
Net loss per share basic	\$ (0.49)	\$ (1.07)
Net loss per share diluted	\$ (0.49)	\$ (1.07)

In 2010, we increased our ownership interest in an existing equity investment in an Australian catalog and wholesale business and, as a result, recognized a gain, representing the investment's estimated fair value immediately before acquiring control, of \$1.0 million, which was reported in interest and other income on our consolidated condensed statements of operations for the year ended December 31, 2010. We used a combination of the income and market approaches to estimate the fair value of this equity investment immediately before increasing our ownership interest. For the income approach, we used historical unaudited financial statements, projected financial information and other records and documents. Multiples of selected publicly-traded companies were used to develop multiples for the market approach.

We include results from operations of acquired companies in our consolidated financial statements from their respective effective acquisition dates.

**5. 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)	2012	2011
Land	\$ 5,582	\$ 5,579
Buildings	16,365	16,103
Furniture, fixtures and equipment	6,295	6,204
Leasehold improvements	1,943	1,943
Website development costs and other software	10,903	9,232
Studios, computer and telephone equipment	9,356	8,689
Warehouse and distribution equipment	1,765	1,765
	52,209	49,515
Accumulated depreciation and amortization	(28,211)	(25,851)
	\$ 23,998	\$ 23,664





## Table of Contents

### **6. Goodwill Impairment and Other General Expense**

In accordance with the Financial Accounting Standards Board's (FASB) accounting standards, we performed a goodwill impairment analysis and determined that \$22.5 million of goodwill in our business segment was impaired at December 31, 2011. The noncash impairment was necessitated by the trading price of our stock. We estimated the fair value of the business goodwill reporting unit and each asset category within that unit using traditional present value techniques, relying upon various sources of information for our assumptions, such as historical data, estimated future sales, internal budgets and projections, and judgment about existing brand potential. This noncash impairment charge is reported in other general expense on our consolidated statement of operations for the year ended December 31, 2011.

### **7. Line of Credit**

On July 31, 2012, each of our subsidiaries Gaiam Americas, Inc., SPRI Products, Inc., GT Direct, Inc., and Gaiam Vivendi Entertainment (collectively the Borrowers) entered into a Revolving Credit and Security Agreement (the Credit Agreement) with PNC Bank, N.A. (PNC), as agent and lender. Borrowings are secured by a pledge of the Borrowers' assets and our ownership interests in the Borrowers. The Credit Agreement provides for a revolving line of credit of up to \$35 million (\$26 million April 1<sup>st</sup> through June 30<sup>th</sup> of each calendar year), subject to borrowing base and related limitations. Subject to certain limitations, the principal amount of the revolving loan is due and payable on the earlier of July 30, 2015 or upon the termination of the Credit Agreement.

For advances that are not Eurodollar rate loans, referred to as domestic rate loans in the Credit Agreement, annual interest will accrue at a rate equal to 0.75% plus the higher of (i) PNC's stated commercial lending rate in effect on such day, (ii) the Federal Funds Open Rate (as defined in the Credit Agreement; essentially the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as published by Bloomberg) in effect on such day plus 0.5%, and (iii) the sum of the Daily LIBOR Rate (as defined in the Credit Agreement; essentially the rate resulting from dividing (x) the daily London Interbank Offered Rates published in the Wall Street Journal for a one month period by (y) a number equal to 1.00 minus the Board of Governors of the Federal Reserve System's reserve percentage with respect to eurocurrency funding) in effect on such day plus 1.0%. The Borrowers may also obtain Eurodollar rate loans under the revolving line of credit. Eurodollar rate loans will accrue annual interest at a rate equal to the sum of 2.25% plus the Eurodollar Rate (as defined in the Credit Agreement; essentially the rate resulting from dividing (x) the rates at which US dollar deposits are offered by leading banks in the London interbank deposit market as published by Bloomberg, by (y) a number equal to 1.00 minus the Board of Governors of the Federal Reserve System's reserve percentage with respect to eurocurrency funding). Interest will be payable monthly in arrears for domestic rate loans and at the end of each interest period for Eurodollar rate loans. Upon and after the occurrence of an event of default, and during the continuation thereof, at the option of PNC or at the direction of a certain specified number of lenders, outstanding advances will bear interest at the interest rate set forth above for domestic rate loans plus 2% per year.

The Borrowers paid a fee of \$175,000 to PNC in consideration for entering into the Credit Agreement, which is being recognized over the term of the Credit Agreement, and will pay PNC a fee equal to 0.5% per year on the undrawn amount of the revolving line of credit. The Credit Agreement permits voluntary prepayments of amounts borrowed and reductions or terminations of the revolving commitments pursuant to notice requirements. The Borrowers must also prepay the advances in amounts equal to the net proceeds of certain sales of collateral and the net proceeds of certain issuances of equity interest or indebtedness. The Borrowers must pay an early termination fee equal to 2% of the maximum amount of the revolving line of credit if the Borrowers prepay all advances before July 31, 2013, and an early termination fee equal to 1% of the maximum amount of the revolving line of credit if the Borrowers prepay all advances before July 31, 2014. The Credit Agreement subjects the Company to certain customary affirmative covenants and customary restrictive covenants, including, but not limited to, restrictions on the Company's ability to incur additional indebtedness, create liens, make investments, pay dividends, and merge. In addition, the Credit Agreement contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, and covenant defaults. If an event of default occurs and is continuing, amounts due under the Credit Agreement may be accelerated and the rights and remedies of the lenders under the Credit Agreement may be exercised.

In conjunction with entering into the Credit Agreement, on August 1, 2012, we paid in full the outstanding balance owed to our prior senior lender, Wells Fargo Bank, National Association, in the amount of approximately \$14.1 million and terminated the underlying Amended and Restated Credit Agreement, dated July 29, 2005, between Gaiam and Wells Fargo.

As of December 31, 2012, the outstanding borrowings on the Credit Agreement were approximately \$16.2 million at an average annual interest rate of approximately 3.53% and the amount reserved for outstanding letters of credit and other reserves was \$12.6 million.

**Table of Contents****8. Accrued Liabilities**

Accrued liabilities consist of the following as of December 31:

(in thousands)	2012	2011
Accrued compensation	\$ 2,549	\$ 1,890
Other accrued liabilities	1,426	1,306
	<b>\$ 3,975</b>	<b>\$ 3,196</b>

**9. 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, 2012:

(in thousands)	Operating
2013	\$ 1,646
2014	1,153
2015	366
2016	27
<b>Total minimum lease payments</b>	<b>\$ 3,192</b>

We incurred rent expense of \$2.1 million, \$2.6 million and \$2.6 million for the years ended December 31, 2012, 2011 and 2010, 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.

**10. Equity**

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.

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

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

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 2010, we issued 5,769 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 2010, and issued 171,940 of our Class A common shares upon exercise of options under our 2009 and 1999 Long-Term Incentive Plans.

**Table of Contents**

On March 8, 2010 and November 18, 2010, our board of directors declared out of additional paid-in capital our 2010 and 2011 annual cash dividends of \$0.15 per share for distribution to our common shareholders of record on April 1, 2010 and December 15, 2010, respectively. As a result, additional paid-in capital on our condensed consolidated balance sheet at December 31, 2010 was decreased by \$7.0 million.

Commencing at December 31, 2008, we restated our accumulated deficit, noncontrolling interest, and total equity balances to reflect the correction of immaterial errors with regards to Real Goods Solar's income taxes for 2008. Accumulated deficit was increased by \$203 thousand, noncontrolling interest was reduced by \$161 thousand, and total equity was reduced by \$364 thousand.

The following schedule reflects the effect of changes in Gaiam, Inc.'s ownership interest in its subsidiaries on Gaiam, Inc.'s equity:

(in thousands, except share data)	For the Year Ended December 31,		
	2012	2011	2010
Net income (loss) attributable to Gaiam, Inc.	\$ (12,882)	\$ (24,872)	\$ 4,275
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	
Decrease in Gaiam, Inc.'s paid-in capital for the acquisition of Spiritual Cinema, Inc.'s noncontrolling interest			(75)
Increase in Gaiam, Inc.'s paid-in capital for the issuance of 21,040 Real Goods Solar Class A common shares in conjunction with nonemployee director fees, and for employee share-based compensation			176
Change from the net income (loss) attributable to Gaiam, Inc. and transfers from the noncontrolling interest	\$ (13,052)	\$ (22,526)	\$ 4,376

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	1,406,450
Total shares reserved for future issuance	6,806,450

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, holds 100% of our 5,400,000 outstanding shares of class B common stock and also owns 668,682 shares of Class A common stock. Consequently, our chairman holds approximately 77% 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 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

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

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.

## Table of Contents

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.

### Real Goods Solar (our formerly consolidated subsidiary, but now our 37.5% owned equity method investment)

During 2011, Real Goods Solar issued under its 2008 Long-Term Incentive Plan 29,408 of its Class A common shares valued at \$72,000 to compensate nonemployee board members for services rendered during 2011. Real Goods Solar valued the shares issued to its independent directors at estimated fair value based on the closing price of Real Goods Solar stock on the date the shares were issued, which by policy was the last trading day of each quarter in which the services were rendered. On June 30, 2011, Real Goods Solar repurchased 379,400 of its Class A common shares for a total cost of \$1.1 million. On December 19, 2011, Real Goods Solar issued 8.7 million shares of its Class A common stock with a fair market value of \$21.6 million to acquire 100% of the equity interest in Earth Friendly Energy Group Holdings, LLC d/b/a Alteris Renewals, Inc. The fair value of the shares issued in this transaction was based on the trading price of Real Goods Solar's Class A common stock on June 21, 2011, the date that Real Goods Solar obtained control of Alteris through an Agreement and Plan of Merger dated June 21, 2011. As of December 31, 2011, we owned 37.5% of Real Goods Solar.

During 2010, Real Goods Solar issued under its 2008 Long-Term Incentive Plan 21,040 Class A common shares valued at \$74,000 to compensate nonemployee board members for services rendered during 2010. As of December 31, 2010, we owned 54.6% of Real Goods Solar.

## 11. 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 an annual cash dividend of \$0.15 per share. 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:

	2012	2011	2010
Expected volatility	59%	58% - 61%	60% - 62%
Weighted-average volatility	59%	59%	61%
Expected dividends	%	2.8% - 4.2%	1.7% - 2.4%
Expected term (in years)	7.1	7.1 - 9.3	5.0 - 6.7
Risk-free rate	1.36% - 1.61%	1.50% - 3.13%	1.25% - 3.13%

**Table of Contents**

The table below presents a summary of option activity under our 2009 and 1999 Long-Term Incentive Plans as of December 31, 2012, and changes during the year then ended:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	1,325,010	\$ 5.74		
Granted	105,000	4.05		
Exercised				
Cancelled or forfeited	(22,000)	6.04		
Expired	(1,560)	5.80		
Outstanding at December 31, 2012	1,406,450	\$ 5.61	4.3	\$
Exercisable at December 31, 2012	892,610	\$ 5.74	2.8	\$

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. On November 4, 2010, we extended the expiration date on 200,000 fully-vested options previously granted under our 1999 Long-Term Incentive Plan to our chief executive officer, which were scheduled to expire on November 20, 2010. This transaction was accounted for as a cancellation of the original options and a re-issuance under our 2009 Long-Term Incentive Plan of fully vested options that are immediately exercisable, with an expiration date of March 31, 2012. This resulted in an incremental share-based compensation cost of \$93,000 during 2010. 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 \$212,000, recognizable over 2009 through 2013.

We issue new shares upon the exercise of options. No options were exercised during 2012. We received \$0.1 million in cash from stock options exercised during 2011. The weighted-average grant-date fair value of options granted during the years 2012, 2011, and 2010 was \$2.39, \$2.32, and \$3.42, respectively. The total intrinsic value of options exercised during 2011 and 2010 was \$0.1 million each year. The total fair value of shares vested was \$0.8 million during each 2012 and 2011 and \$1.1 million during 2010.

Our share-based compensation cost charged against income was \$1.0 million during 2012 and \$1.6 million during each of 2011 and 2010, 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 and \$0.1 million for 2010. The total income tax benefit recognized for share-based compensation was \$0.4 million for 2012 and \$0.6 million each of 2011 and 2010. As of December 31, 2012, there was \$1.0 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 2.77 years.

**12. Income Taxes**

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

(in thousands)	For the Years Ended December 31,		
	2012	2011	2010
Current:			
Federal	\$ 184	\$ 129	\$ 113
State	(88)	116	71
International	196	236	224



Edgar Filing: GAIAM, INC - Form 10-K

	292	481	408
Deferred:			
Federal	(5,590)	(10,384)	1,434
State	(374)	(748)	170
International	(3)	(6)	354
	(5,967)	(11,138)	1,958
	\$ (5,675)	\$ (10,657)	\$ 2,366

**Table of Contents**

Variations from the federal statutory rate are as follows:

(in thousands)	2012	2011	2010
Expected federal income tax expense (benefit) at statutory rate of 34%	\$ (807)	\$ (12,215)	\$ 2,528
Effect of permanent goodwill impairment and worthless stock differences		7,668	(114)
Effect of permanent subsidiary s acquisition-related costs		461	
Effect of permanent enhanced charitable donation differences	(31)	(25)	(260)
Effect of permanent other differences	106	131	49
Effect of change in financial statement carrying value of investment	(5,077)	(5,534)	
State income tax expense (benefit), net of federal benefit	(40)	(871)	238
Federal tax credits		(164)	(16)
Other	209	(55)	(42)
Effect of differences between U.S. taxation and foreign taxation	(35)	(53)	(17)
<b>Income tax expense (benefit)</b>	<b>\$ (5,675)</b>	<b>\$ (10,657)</b>	<b>\$ 2,366</b>

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, 2012 and 2011 are as follows:

(in thousands)	December 31,	
	2012	2011
<b>Deferred tax assets (liabilities):</b>		
Current:		
Provision for doubtful accounts	\$ 245	\$ 306
Inventory-related expense	699	724
Accrued liabilities	3,888	3,530
Charitable carryforward		187
Net operating loss carryforward	3,617	2,229
Impaired loans to affiliate	959	
Prepaid and deferred catalog costs	(250)	(266)
Other	(29)	(24)
<b>Total current deferred tax assets</b>	<b>\$ 9,129</b>	<b>\$ 6,686</b>
Non-current:		
Depreciation and amortization	\$ 288	\$ (1,032)
Section 181 qualified production expense	(4,579)	(4,414)
Net operating loss carryforward	13,737	15,975
Charitable carryforward	1,681	1,464
Loss (gain) from change in financial statement carrying value of investment, net	228	(4,849)
Gain from foreign business acquisition	(347)	(347)
Impairment of intangibles	5,412	6,032
Tax credits	899	899
Other	42	(3)
<b>Total non-current deferred tax assets</b>	<b>17,361</b>	<b>13,725</b>
<b>Valuation allowance</b>	<b>(2,669)</b>	<b>(1,089)</b>
<b>Total non-current deferred tax assets, net of valuation allowance</b>	<b>14,692</b>	<b>12,636</b>
<b>Total net deferred tax assets</b>	<b>\$ 23,821</b>	<b>\$ 19,322</b>

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

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

<b>(in thousands)</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Domestic	\$ (18,745)	\$ (34,918)	\$ 6,094
International	493	(1,009)	1,341
	\$ (18,252)	\$ (35,927)	\$ 7,435

---

**Table of Contents**

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 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. Equity Method Investment and Receivable From Investee.

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, 2012, we had made a provision for U.S. federal and state income taxes on approximately \$0.6 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.

At December 31, 2012, we had \$15.8 million in tax effected federal net operating loss carryforwards. Additionally, we had \$1.6 million in tax effected state net operating loss carryforwards. These operating loss carryforwards, if unused, will begin to expire in 2018. The Internal Revenue Code contains provisions that limit the net operating loss available for use in any given year upon the occurrence of certain events, including significant changes in ownership interest. A change in ownership of a company of greater than 50% within a three-year period results in an annual limitation on the utilization of net operating loss carryforwards from tax periods prior to the ownership changes. Certain of our net operating loss carryforwards as of December 31, 2012 are subject to annual limitations due to changes in ownership.

We have alternative minimum tax credit carryforwards, which have no expiration dates, of approximately \$0.5 million that are available to offset future regular tax liabilities. We also have general business tax credit carryforwards and foreign tax credit carryforwards for federal income tax purposes at December 31, 2012 of approximately \$254,000 and \$164,000, respectively that are available to reduce future federal income taxes, if any, and begin to expire in 2018.

Periodically, we perform assessments of the realization of our net deferred tax assets considering all available evidence, both positive and negative. 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. Equity Method Investment and Receivable From Investee. 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, 2012 to be fully recoverable through the reversal of taxable temporary differences and normal business activities in future years.

No stock options were exercised during 2012. We realized \$13,000 in tax write-offs recorded to additional paid-in capital as a result of the exercise of stock options for the year ended December 31, 2011. 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 2008 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****13. Segment and Geographic Information****Segment Information**

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 and 2010. Since RSOL's deconsolidation, we manage our business 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 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 these three segments was as follows:

(in thousands)	Year Ended December 31,		
	2012	2011	2010
Net revenue:			
Direct to consumer	\$ 72,293	\$ 77,259	\$ 99,706
Business	130,182	88,257	97,238
Net revenue excluding Solar (RSOL)	202,475	165,516	196,944
Solar		109,257	77,324
Consolidated net revenue	202,475	274,773	274,268
Contribution margin (loss):			
Direct to consumer	(14,242)(b)	(7,152)	(7,091)
Business	14,832	(21,859)(a)	11,214
Contribution margin (loss) excluding Solar (RSOL)	590	(29,011)	4,123
Solar		(2,276)	2,021
Consolidated contribution margin (loss)	590	(31,287)	6,144
Reconciliation of contribution margin (loss) to net income (loss) attributable to Gaiam, Inc.:			
Interest and other income (expense)	(432)	(90)	1,291
Loss from equity method investment in RSOL	(18,410)		
Loss on deconsolidation of RSOL		(4,550)	
Income tax expense (benefit)	(5,675)	(10,657)	2,366
Net (income) loss attributable to noncontrolling interest	(305)	398	(794)
Net income (loss) attributable to Gaiam, Inc.	\$ (12,882)	\$ (24,872)	\$ 4,275

(a) During 2011, we recognized a noncash goodwill impairment charge of \$22.5 million in our business segment. See Note 6. Goodwill Impairment and Other General Expense.

(b) Includes investment in our digital subscription businesses of \$5.9 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,		
	2012	2011	2010
Total assets:			
Direct to consumer	\$ 33,622	\$ 20,976	\$ 23,604
Business	127,937	79,522	104,620
Solar (a)			47,599
Other unallocated corporate amounts	32,303	62,792	31,610
	\$ 193,862	\$ 163,290	\$ 207,433

(a) We restated total assets for Solar to reflect the correction of immaterial errors relating to Real Goods Solar's 2008 income taxes. Solar's total assets for 2010 were reduced by \$364 thousand. See Note 10. Equity.

**Major Customer**

Sales to our largest customer accounted for approximately 14.8% of total net revenue during each of 2012 and 2011 and 13.0% of net revenue during 2010, 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, Mexico, Japan, 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, 2012, 2011 and 2010:

(in thousands)	2012	2011	2010
Revenue:			
United States	\$ 197,416	\$ 269,823	\$ 271,924
International	5,059	4,950	2,344
	\$ 202,475	\$ 274,773	\$ 274,268
Long-Lived Assets:			
United States	\$ 42,347	\$ 38,593	\$ 43,611
International	626	370	718
	\$ 42,973	\$ 38,963	\$ 44,329

(in thousands)	As of December 31,		
	2012	2011	2010
Components of Long-Lived Assets (a):			
Property and equipment, net	\$ 23,998	\$ 23,664	\$ 27,861
Media Library, net	13,090	14,576	15,596
Other Intangibles, net	5,608	569	813
Other assets	277	154	59
	\$ 42,973	\$ 38,963	\$ 44,329

- (a) Excludes other non-current assets (non-current deferred tax assets, net, goodwill, investments, notes receivable, and security deposits) of \$24,481, \$29,994, and \$29,427 for 2012, 2011, and 2010, respectively. We restated the amount excluded for 2010 to reflect the correction of immaterial errors related to Real Goods Solar's 2008 income taxes and, thus, the excluded amount for 2010 was reduced by \$364 thousand. See Note 10. Equity.

**Table of Contents****14. Quarterly Results of Operations (Unaudited)**

The following tables set forth our unaudited results of operations for each of the quarters in 2012 and 2011. Since RSOL was not deconsolidated until December 31, 2011, for better comparison purposes, we have presented the 2011 quarters both on a pro forma basis assuming RSOL instead had been deconsolidated on January 1, 2011 (RSOL Deconsolidated) and on a US GAAP basis with RSOL deconsolidated on December 31, 2011 (RSOL Consolidated). 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. Additionally, 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.

(in thousands, except per share data)	RSOL Deconsolidated			
	Year 2012 Quarters Ended			
	March 31	June 30	September 30 (a)	December 31
Net revenue	\$ 47,333	\$ 45,446	\$ 42,983	\$ 66,713
Gross profit	27,106	28,011	24,071	36,916
Loss from equity method investment	(696)	(944)	(15,940)	(830)
Income (loss) before income taxes and noncontrolling interests	(1,935)	(3,033)	(16,303)	3,019
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
Diluted net income (loss) per share attributable to Gaiam, Inc. common shareholders	\$ (0.05)	\$ (0.09)	\$ (0.49)	\$ 0.07
Weighted average shares outstanding-diluted	22,698	22,702	22,704	22,706

(in thousands, except per share data)	RSOL Deconsolidated			
	Year 2011 Quarters Ended			
	March 31	June 30	September 30	December 31 (b)
Net revenue	\$ 37,387	\$ 30,755	\$ 41,747	\$ 55,627
Gross profit	20,831	17,242	24,061	26,867
Loss before income taxes and noncontrolling interests	(1,563)	(5,821)	(1,095)	(21,151)
Net loss	(964)	(3,994)	(890)	(20,834)
Net loss attributable to Gaiam, Inc.	(1,006)	(3,868)	(1,142)	(21,120)
Diluted net loss per share attributable to Gaiam, Inc. common shareholders	\$ (0.04)	\$ (0.17)	\$ (0.05)	\$ (0.93)
Weighted average shares outstanding-diluted	23,301	23,314	23,205	22,691

(in thousands, except per share data)	RSOL Consolidated			
	Year 2011 Quarters Ended			
	March 31	June 30	September 30	December 31 (b)
Net revenue	\$ 54,812	\$ 50,709	\$ 73,333	\$ 95,919
Gross profit	25,860	22,602	31,914	36,485
Loss before income taxes and noncontrolling interests	(1,509)	(7,113)	(1,655)	(25,650)
Net loss	(941)	(4,978)	(1,189)	(18,162)
Net loss attributable to Gaiam, Inc.	(1,000)	(4,141)	(1,229)	(18,502)
Diluted net loss per share attributable to Gaiam, Inc. common shareholders	\$ (0.04)	\$ (0.18)	\$ (0.05)	\$ (0.82)
Weighted average shares outstanding-diluted	23,301	23,314	23,205	22,691

- (a) 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. See Note 3. Equity Method Investment and Receivable From Investee.
- (b) During the quarter ended December 31, 2011, we recorded a noncash, goodwill impairment charge of \$22.5 million, a noncash loss on deconsolidation of subsidiary of \$4.5 million, and an income tax benefit of \$7.1 million related to the remeasurement to fair value of our equity method investment in Real Goods Solar. See Notes 3 and 6 to our consolidated financial statements for 2011.



**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 or Revenue (a) (b)	Additions Charged to Participations Payable (b)	Deductions (c)	Balance at End of Year (a)
<b>Allowance for Doubtful Accounts:</b>					
2012	\$ 876	\$ 623	\$	\$ 809	\$ 690
2011	\$ 991	\$ 545	\$	\$ 660	\$ 876
2010	\$ 1,593	\$ 175	\$	\$ 777	\$ 991
<b>Allowance for Product Returns:</b>					
2012	\$ 4,098	\$ 40,528	\$ 17,560	\$ 46,770	\$ 15,416
2011	\$ 4,320	\$ 26,595	\$	\$ 26,817	\$ 4,098
2010	\$ 6,209	\$ 23,757	\$	\$ 25,646	\$ 4,320

(a) Includes reserves associated with acquired assets/companies.

(b) For media distribution agent arrangements, the portions of the additions to the allowance for doubtful accounts and to the allowance for product returns that are recoupable by us from the studio or content producer are netted against the amount we owe to such studios and content producers in participations payable. The remainder is a reduction to our net revenue (agent fee).

(c) 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. Equity Method Investment and Receivable From Investee.

**Table of Contents**

**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 principal executive officer and principal accounting officer conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and Rule 15d-15(e) under the Exchange Act. Based upon their evaluation as of December 31, 2012, they have 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, 2011 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, 2012 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on that assessment, our management concluded that, as of December 31, 2012, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2012 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**

We incorporate herein the information required by this Item by reference to our Proxy Statement for our Annual Meeting of Shareholders, to be held on May 30, 2013, to be filed with the Commission pursuant to Regulation 14A.

*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 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>.

**Item 11. Executive Compensation**

We incorporate herein the information required by this Item by reference to our Proxy Statement for our Annual Meeting of Shareholders, to be held on May 30, 2013, to be filed with the Commission pursuant to Regulation 14A.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

We incorporate herein the information required by this Item by reference to our Proxy Statement for our Annual Meeting of Shareholders, to be held on May 30, 2013, to be filed with the Commission pursuant to Regulation 14A.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

We incorporate herein the information required by this Item by reference to our Proxy Statement for our Annual Meeting of Shareholders, to be held on May 30, 2013, to be filed with the Commission pursuant to Regulation 14A.

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

We incorporate herein the information required by this Item by reference to our Proxy Statement for our Annual Meeting of Shareholders, to be held on May 30, 2013, to be filed with the Commission pursuant to Regulation 14A.

**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.

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

### 2. Financial Statement Schedules:

#### Schedule II Consolidated Valuation and Qualifying Accounts.

The consolidated financial statements of Real Goods Solar, Inc., a 37.5% owned equity method investee, required pursuant to Rule 3-09 of the Securities and Exchange Commission's Regulation S-X will be filed when available by amendment to this Form 10-K on or before April 1, 2013. These financial statements will be audited as of December 31, 2012 and prepared in accordance with GAAP.

### 3. Exhibits:

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

<b>Exhibit No.</b>	<b>Description</b>
2.1	Purchase Agreement, dated as of 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 as of 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 as of 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)).***

**Table of Contents**

<b>Exhibit No.</b>	<b>Description</b>
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 and 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, National Association (incorporated by reference to Exhibit 10.2 of Gaiam's quarterly report on Form 10-Q for the quarter ended June 30, 2005 and 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 and 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 and 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 and 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 and 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 and 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 and 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 and 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 and 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 and filed August 9, 2005 (No. 000-27517)).



**Table of Contents**

<b>Exhibit No.</b>	<b>Description</b>
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 and 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 and 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 and 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).
99.1	Real Goods Solar, Inc. Audited Consolidated Financial Statements as of December 31, 2012 (to be filed by amendment).
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.

\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes or Section 18 of the Securities Exchange Act of 1934, and otherwise are not subject to liability under these sections.

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

**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 18, 2013

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 18, 2013
Jirka Rysavy		
/s/ Lynn Powers	Chief Executive Officer and Director	March 18, 2013
Lynn Powers	(Principal Executive Officer)	
/s/ James Argyropoulos	Director	March 18, 2013
James Argyropoulos		
/s/ Barnet M. Feinblum	Director	March 18, 2013
Barnet M. Feinblum		
/s/ Barbara Mowry	Director	March 18, 2013
Barbara Mowry		
/s/ Paul H. Ray	Director	March 18, 2013
Paul H. Ray		
/s/ Paul Sutherland	Director	March 18, 2013
Paul Sutherland		
/s/ Stephen J. Thomas	Chief Financial Officer	March 18, 2013
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 as of 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 as of 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 as of 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)).***
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 and 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, National Association (incorporated by reference to Exhibit 10.2 of Gaiam's quarterly report on Form 10-Q for the quarter ended June 30, 2005 and 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 and 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 and 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 and 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 and 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 and filed March 16, 2010 (No. 000-27517)).



**Table of Contents**

<b>Exhibit No.</b>	<b>Description</b>
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 and 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 and 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 and 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 and 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 and 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 and 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 and 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).
99.1	Real Goods Solar, Inc. Audited Consolidated Financial Statements as of December 31, 2012 (to be filed by amendment).
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema.

**Table of Contents**

<b>Exhibit No.</b>	<b>Description</b>
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.

\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes or Section 18 of the Securities Exchange Act of 1934, and otherwise are not subject to liability under these sections.

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