

GAIAM, INC
Form 10-Q
November 06, 2015
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United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2015

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)

COLORADO
(State or other jurisdiction of
incorporation or organization)
84-1113527
(I.R.S. Employer
Identification No.)
833 WEST SOUTH BOULDER ROAD,
LOUISVILLE, COLORADO 80027
(Address of principal executive offices)
(303) 222-3600
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

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

| Class | Outstanding at November 2, 2015 |
|---|--|
| Class A Common Stock (\$.0001 par value) | 19,125,692 |
| Class B Common Stock (\$.0001 par value) | 5,400,000 |

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GAIAM, INC.

FORM 10-Q

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements that involve risks and uncertainties. The words “anticipate,” “believe,” “plan,” “estimate,” “expect,” “strive,” “future,” “intend” and similar expressions are intended to identify such forward-looking statements. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors set forth under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Quantitative and Qualitative Disclosures about Market Risk” and elsewhere in this report. Risks and uncertainties that could cause actual results to differ include, without limitation, legal disputes or arbitration proceedings, general economic conditions, competition, changing consumer preferences, inventory risk, acquisitions, new initiatives undertaken by us, loss of key personnel, our founder’s control of us, brand reputation, difficulty obtaining financing, product liability, dependence on third-party suppliers, reliance on communication and shipping networks, reliance on security and information systems, the effect of government regulation, legal liability for website content, our reliance on a centralized fulfillment center, fluctuations in quarterly operating results, increases in postage and shipping costs, changing reporting requirements, the potential separation of our subscription unit from the Gaiam-branded business resulting in two separate publicly traded companies and other risks and uncertainties included in our filings with the Securities and Exchange Commission. We caution you that no forward-looking statement is a guarantee of future performance, and you should not place undue reliance on these forward-looking statements, which reflect our view only as of the date of this report. We undertake no obligation to update any forward-looking information.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Unaudited Interim Condensed Consolidated Financial Statements

We have prepared our unaudited interim condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to these rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, the unaudited interim condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, our consolidated financial position as of September 30, 2015, the interim results of operations for the three and nine months ended September 30, 2015 and 2014, and cash flows for the nine months ended September 30, 2015 and 2014. These interim statements have not been audited. The balance sheet as of December 31, 2014 was derived from our audited consolidated financial statements included in our annual report on Form 10-K. The interim condensed consolidated financial statements contained herein should be read in conjunction with our audited financial statements, including the notes thereto, for the year ended December 31, 2014.

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

| (in thousands, except share and per share data) | | September 30, 2015 (unaudited) | December 31, 2014 |
|---|----|--------------------------------------|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash | \$ | 20,077 | \$ 15,772 |
| Accounts receivable, net | | 22,440 | 30,266 |
| Inventory, less allowances | | 16,090 | 20,154 |
| Other current assets | | 16,305 | 11,998 |
| Current assets of discontinued operations | | | 582 |
| Total current assets | | 74,912 | 78,772 |
| Property and equipment, net | | 25,940 | 23,231 |
| Media library, net | | 8,533 | 7,691 |
| Goodwill | | 15,448 | 15,448 |
| Other intangibles, net | | 969 | 823 |
| Other assets | | 4,681 | 12,667 |
| Total assets | \$ | 130,483 | \$ 138,632 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ | 20,064 | \$ 18,837 |
| Accrued liabilities | | 24,033 | 20,236 |
| Total current liabilities | | 44,097 | 39,073 |
| Commitments and contingencies | | | |
| Equity: | | | |
| Gaiam, Inc. shareholders' equity: | | | |
| Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 19,125,692 and 19,084,958 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively | | 2 | 2 |
| Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at September 30, 2015 and December 31, 2014 | | 1 | 1 |
| Additional paid-in capital | | 172,131 | 171,315 |
| Accumulated other comprehensive loss | | (302) | (200) |
| Accumulated deficit | | (90,152) | (76,329) |
| Total Gaiam, Inc. shareholders' equity | | 81,680 | 94,789 |
| Noncontrolling interest | | 4,706 | 4,770 |
| Total equity | | 86,386 | 99,559 |

| | | | | |
|------------------------------|----|---------|----|---------|
| Total liabilities and equity | \$ | 130,483 | \$ | 138,632 |
|------------------------------|----|---------|----|---------|

See accompanying notes to the interim condensed consolidated financial statements.

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

| (in thousands, except per share data) | For the Three Months Ended | | For the Nine Months Ended | |
|---|----------------------------|----------------|---------------------------|----------------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| | (unaudited) | | (unaudited) | |
| Net revenue | \$ 51,300 | \$ 41,256 | \$ 130,084 | \$ 111,318 |
| Cost of goods sold | 29,447 | 23,238 | 72,777 | 60,812 |
| Gross profit | 21,853 | 18,018 | 57,307 | 50,506 |
| Expenses: | | | | |
| Selling and operating | 14,472 | 17,070 | 45,685 | 48,593 |
| Corporate, general and administration | 4,072 | 2,801 | 11,086 | 8,763 |
| Other general expense | 61 | 71 | 150 | 707 |
| Total expenses | 18,605 | 19,942 | 56,921 | 58,063 |
| Income (loss) from operations | 3,248 | (1,924) | 386 | (7,557) |
| Interest and other expense, net | (370) | (173) | (740) | (108) |
| Gain on sale of investments | | | | 1,480 |
| Income (loss) before income taxes and noncontrolling interest | 2,878 | (2,097) | (354) | (6,185) |
| Income tax expense | 447 | 462 | 621 | 688 |
| Net income (loss) from continuing operations | 2,431 | (2,559) | (975) | (6,873) |
| Loss from discontinued operations, net of tax | (10,695) | (82) | (12,282) | (54) |
| Net loss | (8,264) | (2,641) | (13,257) | (6,927) |
| Net income attributable to noncontrolling interest | (550) | (385) | (566) | (621) |
| Net loss attributable to Gaiaam, Inc. | \$ (8,814) | \$ (3,026) | \$ (13,823) | \$ (7,548) |
| Net income (loss) per share attributable to Gaiaam, Inc. common shareholders basic and diluted: | | | | |
| From continuing operations | \$ 0.08 | \$ (0.12) | \$ (0.06) | \$ (0.31) |
| From discontinued operations | \$ (0.44) | \$ 0.00 | \$ (0.50) | \$ 0.00 |
| Net loss per share attributable to Gaiaam, Inc. | \$ (0.36) | \$ (0.12) | \$ (0.56) | \$ (0.31) |
| Weighted-average shares outstanding: | | | | |
| Basic | 24,517 | 24,340 | 24,507 | 24,146 |

| | | | | |
|---------|--------|--------|--------|--------|
| Diluted | 24,604 | 24,340 | 24,507 | 24,146 |
|---------|--------|--------|--------|--------|

See accompanying notes to the interim condensed consolidated financial statements.

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

| (in thousands, except per share data) | For the Three Months Ended | | For the Nine Months Ended | |
|---|----------------------------|------------|---------------------------|------------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| | (unaudited) | | (unaudited) | |
| Net loss | \$ (8,264) | \$ (2,641) | \$ (13,257) | \$ (6,927) |
| Accumulated other comprehensive (loss) income: | | | | |
| Foreign currency translation loss, net of tax | (154) | (53) | (246) | (16) |
| Unrealized gain on equity security, net of tax | | | | 202 |
| Reclassification of gain on equity security to net income, net of tax | | | | (319) |
| Comprehensive loss | (8,418) | (2,694) | (13,503) | (7,060) |
| Less: comprehensive (income) loss attributable to the noncontrolling interest | (471) | 38 | (422) | 13 |
| Comprehensive loss attributable to Gaiam, Inc. | \$ (8,889) | \$ (2,656) | \$ (13,925) | \$ (7,047) |

See accompanying notes to the interim condensed consolidated financial statements

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

| | For the Nine Months Ended September 30, | |
|--|--|----------------|
| (in thousands) | 2015 | 2014 |
| | (unaudited) | |
| Operating activities | | |
| Net loss | \$ (13,257) | \$ (6,927) |
| Loss from discontinued operations | 12,282 | 54 |
| Net loss from continuing operations | (975) | (6,873) |
| Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities continuing operations: | | |
| Depreciation | 1,760 | 1,487 |
| Amortization | 1,913 | 1,666 |
| Share-based compensation expense | 656 | 854 |
| Gain on sale of investments | | (1,480) |
| Loss on equity method investments | 325 | |
| Loss on remeasurement of foreign currency | 434 | 139 |
| Other | | 29 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable, net | 7,895 | 7,405 |
| Inventory, less allowances | 3,969 | (565) |
| Other current and long term assets | (4,721) | (6,267) |
| Accounts payable | (1,717) | (1,625) |
| Accrued liabilities | 6,616 | (1,891) |
| Net cash provided by (used in) operating activities continuing operations | 16,155 | (7,121) |
| Net cash used in operating activities discontinued operations | (3,985) | (68) |
| Net cash provided by (used in) operating activities | 12,170 | (7,189) |
| Investing activities | | |
| Proceeds from sale of investments | | 2,646 |
| Purchase of property, equipment and media rights | (6,907) | (4,171) |
| Purchase of businesses, net of acquired cash | | (1,431) |
| Net cash used in investing activities | (6,907) | (2,956) |
| Financing activities | | |
| Proceeds from issuance of stock | 160 | 1,656 |
| Dividends paid to noncontrolling interest | (486) | (150) |
| Net cash (used in) provided by financing activities | (326) | 1,506 |

| | | |
|----------------------------------|--------|---------|
| Effect of exchange rates on cash | (632) | (169) |
| Net change in cash | 4,305 | (8,808) |
| Cash at beginning of period | 15,772 | 32,229 |

| | | |
|------------------------------|------------------|---------------|
| Cash at end of period | \$ 20,077 | 23,421 |
|------------------------------|------------------|---------------|

Supplemental cash flow information

| | | |
|-------------------|--------|--------|
| Income taxes paid | \$ 984 | \$ 685 |
| Interest paid | \$ 3 | \$ 11 |

See accompanying notes to the interim condensed consolidated financial statements

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Notes to interim condensed consolidated financial statements

References in this report to we , us , our or Gaiaam refer to Gaiaam, Inc. and its consolidated subsidiaries, unless we indicate otherwise.

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

Gaiaam, Inc. and its consolidated subsidiaries (the Company) provide a broad selection of yoga, fitness, and wellness products, content, and eco-travel services. Our products are sold through major retailers in the United States, Canada, Europe and other countries. We also sell our products through digital partners, websites and ecommerce channels. Gaiaam TV, our global subscription video streaming service, provides our members with access to conscious media on virtually any internet-connected device anytime, anywhere. We were incorporated under the laws of the State of Colorado on July 7, 1988.

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

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

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.

2. Spin-off of Gaiaam TV

On February 20, 2015, our wholly-owned subsidiary Gaia, Inc. (Gaiaam TV) filed a registration statement on Form 10 with the Securities and Exchange Commission in connection with the previously announced proposed separation of the Gaiaam TV segment from the Gaiaam Brand segment into two separate publicly traded companies. Gaiaam TV filed an amended Form 10 with the Securities and Exchange Commission on May 29, 2015 and again on September 9, 2015. Gaiaam TV has filed a listing application with NASDAQ and is in the process of listing on NASDAQ in anticipation of the spin-off. We currently expect that the proposed tax-free spin-off will occur through a distribution to Gaiaam, Inc.'s shareholders of all the stock of Gaiaam TV. Gaiaam TV would hold all of the assets and liabilities of the Gaiaam TV segment. The Gaiaam Brand segment will remain with Gaiaam, Inc. after the distribution. The completion of the separation is subject to satisfaction of several conditions. Furthermore, our board of directors has the right and ability, in its sole discretion, to abandon the proposed separation at any time before the distribution date. As a result, there can be no assurance that the separation will occur.

In connection with the proposed spin-off, Gaiaam TV anticipates entering into a reorganization agreement with Gaiaam, Inc. to provide for, among other things, the principal corporate transactions required to effect the spin-off, certain conditions to the spin-off and provisions governing the relationship between Gaiaam TV and Gaiaam, Inc. with respect to and resulting from the spin-off. The reorganization agreement would also provide that the holders of options to purchase Gaiaam, Inc. Class A common stock who are employees or non-employee directors of Gaiaam, Inc. on the

record date for the distribution will receive options to purchase shares of Gaiaam TV's Class A common stock in the same ratio as shareholders. Additionally there will be a corresponding adjustment to the existing Gaiaam, Inc. options held by such holder. The spin-off would not constitute a change in control for purposes of Gaiaam, Inc.'s equity plans, and therefore no vesting of awards will occur as a result of the spin-off. In addition, the reorganization agreement would address the treatment of the various insurance policies held by Gaiaam, Inc. and Gaiaam TV after the spin-off. In anticipation of the spin-off, Gaiaam TV has entered into multiple license agreements with Gaiaam, Inc. including a license agreement for the use of the Gaiaam TV trade name, and related trademarks and service marks following the spin-off.

Providing the spin-off is completed, Gaiaam TV anticipates entering into a transition services agreement with Gaiaam, Inc. in connection with the separation. Under the transition services agreement, Gaiaam, Inc. and Gaiaam TV would agree to provide certain services to the other for a period of up to 24 months following the spin-off, or such other shorter period as may be provided in the transition services agreement. The services to be provided may include certain corporate services including, but not limited to, management, financial, accounting, tax, human resources, payroll, technical, fulfillment, software quality control, and certain office services as required from time to time in the ordinary course of our business. Charges for these services would be based on the actual cost of such services without premium or mark-up, although applicable administrative and other overhead costs associated with the services will be allocated and included in the service charge. The employees of Gaiaam TV would remain eligible employees under certain employee benefit plans currently maintained by Gaiaam, Inc., which will be managed under the transition services agreement.

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Effective January 1, 2015, Gaiam, Inc. contributed to Gaiam TV its 100% membership interest in Boulder Road LLC, a Colorado limited liability company. Boulder Road LLC is the sole owner of the property located at 833 West South Boulder Road in Louisville, Colorado, which is the location for our operations and the principal executive offices of Gaiam, Inc., Gaiam TV and various other companies. The Gaiam, Inc. business unit and the Gaiam TV business unit have entered into lease agreements with Boulder Road LLC effective with the contribution. The intercompany transactions have been eliminated in the accompanying condensed consolidated financial statements.

3. Investments

We did not sell any investments or recognize any gains on sales of investments during the nine months ended September 30, 2015.

During the nine months ended September 30, 2014, we reported a gain of \$1.0 million on the sale of our Real Goods Solar, Inc. (RGSE) class A common stock. We also recognized a gain of \$0.5 million in connection with the sale of Cinedigm Corp. Class A common stock which we received in connection with the sale of our non-branded entertainment media business to Cinedigm Corp. in October 2013.

4. Joint Venture

On July 24, 2015, the Company formed a partnership with a third party to jointly market a fitness-based infomercial and its associated products. Under the arrangement, the Company will provide rights to an infomercial which it has developed, and the third party will provide the necessary working capital to advertise and market the infomercial worldwide. We hold a 49% interest in the partnership, and are accounting for it as an equity method investment. During the three months ended September 30, 2015, the Company recognized a loss of \$0.3 million associated with the venture which is included in Interest and other expense, net in the accompanying condensed consolidated statements of operations.

5. Credit Facility

On July 23, 2015, Boulder Road LLC, a subsidiary of Gaiam TV, entered into a revolving line of credit agreement with a bank in the amount of \$5.5 million. The note bears interest at the prime rate plus 3.25%, is guaranteed by Gaiam, Inc. and Gaiam TV, and is secured by a Deed of Trust filed against the real property on which the principal offices of the Company are located. The value of our principal offices is far in excess of the amount of the line of credit. No amounts were drawn or outstanding under the line of credit during the three months ended September 30, 2015.

6. Equity

During the first nine months of 2015, we issued 12,000 shares of our Class A common stock under our 2009 Long-Term Incentive Plan to our independent directors, in lieu of cash compensation, for services rendered in 2015. We valued the shares issued to our independent directors at estimated fair value based on the closing price of our shares on the date the shares were issued, which by policy is the last trading day of each quarter in which the services were rendered.

During the first nine months of 2015, we issued 29,000 shares of our Class A common stock with net proceeds of \$0.2 million in connection with option exercises. The following is a reconciliation from December 31, 2014 to September 30, 2015 of the carrying amount of total equity, equity attributable to Gaiam, Inc., and equity attributable to the noncontrolling interest.

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| Gaiam, Inc. Shareholders | | | | | | | |
|--|--------------|---------------------------|----------------------------|---------------------------|---------------------|------------------------|--------------------------------|
| Accumulated Class A | | | | | | | |
| Other and Class B | | | | | | | |
| (in thousands) | Total | Comprehensive Loss | Accumulated Deficit | Comprehensive Loss | Common Stock | Paid-in Capital | Noncontrolling Interest |
| Balance at | | | | | | | |
| December 31, 2014 | \$ 99,559 | | \$ (76,329) | \$ (200) | \$ 3 | \$ 171,315 | \$ 4,770 |
| Issuance of Gaiam, Inc. common stock for stock option exercises and share-based compensation | 816 | | | | | 816 | |
| Dividends paid to noncontrolling interest | (486) | | | | | | (486) |
| Comprehensive loss: | | | | | | | |
| Net (loss) income | (13,257) | (13,257) | (13,823) | | | | 566 |
| Foreign currency translation adjustment, net of taxes of \$107 | (246) | (246) | | (102) | | | (144) |
| Comprehensive loss | | \$ (13,503) | | | | | |
| Balance at | | | | | | | |
| September 30, 2015 | \$ 86,386 | | \$ (90,152) | \$ (302) | \$ 3 | \$ 172,131 | \$ 4,706 |

7. Share-Based Payments

During the first nine months of 2015 and 2014, we extended the term of certain options granted under our 2009 Long-Term Incentive Plan to a member of our executive team for an additional year, and recognized \$0.1 and \$0.4 million of associated stock compensation expense. Total share-based compensation expense is reported in corporate, general and administration expenses on our condensed consolidated statements of operations.

8. Net Loss per Share Attributable To Gaiam, Inc. Common Shareholders

Basic net loss per share attributable to Gaiam, Inc. common shareholders excludes any dilutive effects of options. We compute basic net loss per share attributable to Gaiam, Inc. common shareholders using the weighted average number of shares of common stock outstanding during the period. We compute diluted net loss per share attributable to Gaiam, Inc. common shareholders using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. We excluded common stock equivalents of 943,000 and 645,000 from the computation of diluted net loss per share attributable to Gaiam, Inc. common shareholders for the three months ended September 30, 2015 and 2014, respectively, and 957,000 and 845,000 for the nine months ended September 30, 2015 and 2014, respectively, because their effect was antidilutive.

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

| (in thousands, except per share data) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net loss attributable to Gaiam, Inc. common shareholders: | | | | |
| Income (loss) from continuing operations | \$ 1,881 | \$ (2,944) | \$ (1,541) | \$ (7,494) |
| Loss from discontinued operations | (10,695) | (82) | (12,282) | (54) |
| Net loss attributable to Gaiam, Inc. | \$ (8,814) | \$ (3,026) | \$ (13,823) | \$ (7,548) |
| Weighted average shares for basic net loss per share | 24,517 | 24,340 | 24,507 | 24,146 |
| Effect of dilutive securities | 87 | | | |
| Weighted average shares for diluted net loss per share | 24,604 | 24,340 | 24,507 | 24,146 |
| Net loss per share attributable to Gaiam, Inc. common shareholders basic and diluted: | | | | |
| Income (loss) from continuing operations | \$ 0.08 | \$ (0.12) | \$ (0.06) | \$ (0.31) |
| Loss from discontinued operations | \$ (0.44) | \$ 0.00 | \$ (0.50) | \$ 0.00 |
| Basic and diluted net loss per share attributable to Gaiam, Inc. | \$ (0.36) | \$ (0.12) | \$ (0.56) | \$ (0.31) |

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During the nine months ended September 30, 2014, we recognized gains on the sales of investments (see Note 3) of \$1.5 million. Excluding the impact of these gains, net loss per share for the nine months ended September 30, 2014 would have increased by \$0.06 per share. There were no similar gains recognized during the three months ended September 30, 2014 or the nine months ended September 30, 2015.

9. Income Taxes

During 2013, we determined that a full valuation allowance against our deferred tax assets was necessary due to the cumulative loss incurred over the three-year period ended December 31, 2013. Since that time, we have continued to provide a full valuation allowance against deferred tax assets. As income is generated in future periods, the Company expects to reverse the valuation allowance as utilization of the deferred tax assets occurs. As of September 30, 2015, our gross net operating losses were \$86.8 million and \$39.6 million for federal and state, respectively.

10. Segment Information

We manage our company and aggregate our operational and financial information in accordance with two reportable segments, which are aligned based on their products or services:

- Gaiam Brand:* This segment includes all our branded yoga, fitness, and wellness products. It also includes our eco-travel subsidiary.
- Gaiam TV:* This segment includes our digital video streaming service. It also includes the results of Boulder Road LLC from January 1, 2015 forward. We previously announced that we are pursuing the potential spin off of this segment into a separate company.

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Amounts shown as Other unallocated corporate expenses in the table below are primarily expenses of being a public company, and legal costs associated with the proposed spin-off of Gaiam TV, which we do not allocate to our segments. Although we are able to track sales by channel, the management, allocation of resources, and analysis and reporting of expenses are presented on a combined basis, at the reportable segment level. Contribution margin is defined as net revenue less cost of goods sold and total operating expenses. Financial information for our segments is as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenue: | | | | |
| Gaiam Brand | \$ 47,799 | \$ 38,697 | \$ 120,192 | \$ 104,047 |
| Gaiam TV | 3,501 | 2,559 | 9,892 | 7,271 |
| Consolidated net revenue | 51,300 | 41,256 | 130,084 | 111,318 |
| Contribution income (loss): | | | | |
| Gaiam Brand | 4,245 | 919 | 6,363 | 1,424 |
| Gaiam TV | 211 | (2,308) | (3,225) | (6,453) |
| Segment contribution income (loss) | 4,456 | (1,389) | 3,138 | (5,029) |
| Other unallocated corporate expenses | (1,208) | (535) | (2,752) | (2,528) |
| Consolidated contribution income (loss) | 3,248 | (1,924) | 386 | (7,557) |
| Reconciliation of contribution income (loss) to net loss attributable to Gaiam, Inc.: | | | | |
| Interest and other expense, net | (370) | (173) | (740) | (108) |
| Gain on sale of investment | | | | 1,480 |
| Income tax expense | (447) | (462) | (621) | (688) |
| (Loss) income from discontinued operations | (10,695) | (82) | (12,282) | (54) |
| Net income attributable to noncontrolling interest | (550) | (385) | (566) | (621) |
| Net loss attributable to Gaiam, Inc. | \$ (8,814) | \$ (3,026) | \$ (13,823) | \$ (7,548) |

As discussed in Note 2, Gaiam TV filed an amended registration statement on Form 10 with the SEC on September 9, 2015. The segment amounts presented here and discussed elsewhere in this quarterly report on Form 10-Q vary insignificantly from the amounts reported by Gaiam TV in the Form 10, as amended, as the Form 10 requires that certain items be recast for stand-alone presentation.

11. Commitments and Contingencies

On August 13, 2014, Cinedigm Corp. and Cinedigm Entertainment Holdings, LLC (together, Cinedigm) initiated an arbitration proceeding under the Membership Interest Purchase Agreement, dated October 17, 2013, by and among Cinedigm and Gaiam, Inc. and one of its subsidiaries (the MIPA). The aggregate relief requested by Cinedigm exceeded \$30.0 million and included unspecified compensatory damages, attorneys' fees, costs and interest, and other relief. Contractual provisions in the MIPA and related agreements provided that the working capital adjustment

dispute would be resolved pursuant to arbitration before a nationally recognized accounting firm (the WC Arbitration), and the other disputes would be resolved pursuant to arbitration before the American Arbitration Association (the AAA Arbitration).

Following the conclusion of the WC Arbitration, the parties entered into a Confidential Settlement Agreement and Release on September 30, 2015 (the Settlement). The Settlement resolves all of the parties' claims in connection with both the WC Arbitration and the AAA Arbitration (including the claims for working capital adjustment, breach of representations and warranties, breach of contract, fraud and other tortious acts)-with the sole exception of a single claim by Cinedigm (which was preserved) related to the reconciliation of cash collected by the Company during the transition period following the closing of the transaction (the Cash Reconciliation Claim). The Settlement provides that the Company will deliver a payment of \$2.3 million to Cinedigm. The Settlement further provides that the Cash Reconciliation Claim will be resolved through one final arbitration (which has not yet been scheduled). The Settlement limits the Company's potential exposure in connection with the Cash Reconciliation Claim. The company believes it has adequately accrued for the pending arbitration and does not expect any material additional settlements beyond the current estimate.

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The Settlement does not constitute an admission by either party of any liability or wrongdoing whatsoever. The Company entered into the Settlement in order to (i) eliminate the uncertainty and risk inherent in any litigation, (ii) significantly reduce the professional fees and costs that the litigation would require, and (iii) significantly reduce the distraction imposed by the process on management.

During the three months ended September 30, 2015, the Company recorded charges of \$10.7 million which include a non-cash charge of \$7.3 million for the working capital receivable due from Cinedigm. The expenses associated with the Settlement and arbitration have all been included in Loss from discontinued operations in the accompanying condensed consolidated statements of operations.

From time to time, we are involved in legal proceedings that we consider to be in the normal course of business. Claimed amounts against us may be substantial but may not bear any reasonable relationship to the merits of the claim or the extent of any real risk of court or arbitral awards. We record accruals for losses related to those matters against us that we consider to be probable and that can be reasonably estimated. Although it is not feasible to predict the outcome of these matters with certainty, it is reasonably possible that some legal proceedings may be disposed of or decided unfavorably to us and in excess of the amounts currently accrued. Based on available information, in the opinion of management, settlements, arbitration awards and final judgments, if any, which are considered probable of being rendered against us in litigation or arbitration in existence at September 30, 2015 and can be reasonably estimated are reserved against or would not have a material adverse effect on our financial condition, results of operations or cash flows.

12. Discontinued Operations

During 2013, we consummated the sale of GVE Newco, LLC (GVE), a wholly-owned subsidiary of ours representing our non-branded entertainment media business and discontinued our direct response television operations (DRTV). Accordingly, the assets and liabilities, operating results, and cash flows for these businesses are presented as discontinued operations separate from our continuing operations, for all periods presented in these consolidated condensed financial statements and footnotes, unless indicated otherwise.

The sale of GVE to Cinedigm was subject to customary adjustments, including a post-closing working capital adjustment. The losses from discontinued operations generated during 2015 are mainly attributable to the non-cash charge of \$7.3 million for the working capital receivable due from Cinedigm, settlement costs, and legal costs associated with the dispute. After the sale was consummated, we continued providing extensive administrative and accounting services to the buyer through May 2014. We have not provided any significant services since that time.

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

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Net revenue | \$ | \$ 7 | \$ | \$ 2,516 |
| Loss from operations before income taxes | (10,695) | (82) | (12,282) | (54) |
| Loss from operations of discontinued operations | \$ (10,695) | \$ (82) | \$ (12,282) | \$ (54) |

13. Exit Activity Costs

During the fourth quarter of 2013, as a result of the sale of GVE and the discontinuation of DRTV, we recorded impairment charges on certain media and assets; and recorded accruals for termination benefits. Those accruals are included in accrued expenses in our condensed consolidated balance sheets. The activity in the accrual for termination benefits for the nine months ended September 30, 2015 is as follows:

| | |
|-----------------------------|----------|
| Balance, December 31, 2014 | \$ 1,765 |
| Payments made | (113) |
| Balance, September 30, 2015 | \$ 1,652 |

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

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

Overview and Outlook

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

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

We market our products and services across two segments: Gaiam Brand and Gaiam TV.

Gaiam Brand Segment

Gaiam is a leader in the markets for yoga, fitness and wellness products, and media content. Gaiam brands include Gaiam, focused on yoga and fitness; Gaiam Restore, focused on wellness; SPRI, focused on fitness; and our eco-travel business.

We develop and market yoga, fitness and wellness accessories, apparel, and media under Gaiam's brands. These products are sold primarily through major national retailers in the United States, Canada, Europe, and other countries, with placement in over 38,000 retail doors worldwide. We also sell our products through our website and catalogs. Our products and services are targeted to all levels of yoga and fitness enthusiasts, including professionals. We believe that consumers are attracted to our products because of their design, functional characteristics, and our unique brand heritage. Our accessories include yoga mats, bags, straps and blocks; media content including digital media and apps; restorative and massage accessories such as rollers, resistance cords and balance balls; fitness gear such as weights, braided resistance tubing, and cross train equipment; and various other offerings. Our comprehensive line of women's apparel includes pants, shorts, tops and jackets designed around yoga.

We seek to drive sustainable and profitable growth in this segment by leveraging our brands' market positions and heritage to expand our product offering and distribution channels. We believe that growth in yoga participation, greater awareness of health and wellness, and the success of our retail and online partners is increasing consumer interest in our brands and products, and creates new opportunities for us to expand our offering. Recent examples of our brand extension include the 2012 launch of Gaiam Restore and SPRI Dynamic Recovery brands, our at-home rehabilitative and restorative products, the 2013 launch of our SPRI Cross Train line of high-intensity fitness

accessories and most recently, the launch of our yoga apparel line during the first quarter of 2015.

We continue to evolve our e-commerce experience to focus on engaging customers through digital content, and have begun a new focus on social and mobile marketing. With the acquisition of Yoga Studio (defined below), the leading paid yoga app for Apple mobile and tablet devices, which now has over 1 million downloads, we continue to increase our reach and engagement of the mobile centric yogi. We are continuing the execution of our digital strategy, which includes expanding our app offering, and offering our apps on new device platforms. To that note, we launched Yoga Studio on the new Apple TV platform at the end of October 2015. Going into next year we plan to increase our investment in online branding and digital consumer engagement, both on our owned platforms and working with our key retail partners. We feel that our talent relationships, digital production capabilities and digital platforms, like apps, give us a unique competitive position in the yoga, fitness and wellness market. Additionally, we significantly reduced the circulation of our catalogs as the direct-to-consumer business has shifted online.

Gaiam TV Segment

Gaiam TV is a global digital video subscription service with approximately 7,000 titles which caters to an underserved subscriber base. Gaiam TV's digital content is available to subscribers on virtually any internet connected device anytime, anywhere commercial free. The subscription also allows subscribers to download and view files from the library without being actively connected to the

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internet. Through Gaiam TV subscriptions, customers have unlimited access to a vast library of inspiring films, personal growth related content, cutting edge documentaries, interviews, yoga classes, and more 90% of which is available exclusively to Gaiam TV subscribers for digital streaming.

In October 2013, Gaiam TV acquired My Yoga Online, an online yoga video streaming subscription business in Canada. With this acquisition we grew our content library by approximately 1,300 video titles and expanded our international subscriber base. We plan to continue investing in international expansion, both in terms of subscribers and content.

Gaiam's board of directors has approved the separation of Gaiam TV and Gaiam Brand into two separate publicly traded companies. We currently expect the separation to take the form of a tax-free spin-off to shareholders. Our board of directors has the right and ability, in its sole discretion, to abandon the proposed separation at any time before the distribution date. As a result, there can be no assurance that the separation will occur.

Results of Operations

The table below summarizes certain of our results for the periods indicated:

| (in thousands, except per share data) | For the Three Months Ended | | For the Nine Months Ended | |
|---|----------------------------|------------|---------------------------|------------|
| | September 30, 2015 | 2014 | September 30, 2015 | 2014 |
| Net revenues | \$ 51,300 | \$ 41,256 | \$ 130,084 | \$ 111,318 |
| Gross profit | 21,853 | 18,018 | 57,307 | 50,506 |
| Selling and operating corporate, general and administration | 18,605 | 19,942 | 56,921 | 58,063 |
| Income (loss) from operations | 3,248 | (1,924) | 386 | (7,557) |
| Interest and other expense, net | (370) | (173) | (740) | (108) |
| Gain on sale of investment | | | | 1,480 |
| Income (loss) before taxes and noncontrolling interest | 2,878 | (2,097) | (354) | (6,185) |
| Income tax expense | 447 | 462 | 621 | 688 |
| Net income (loss) from continuing operations | 2,431 | (2,559) | (975) | (6,873) |
| Loss from discontinued operations | (10,695) | (82) | (12,282) | (54) |
| Net loss | (8,264) | (2,641) | (13,257) | (6,927) |
| Net income attributable to noncontrolling interest | (550) | (385) | (566) | (621) |
| Net loss attributable to Gaiam, Inc. | \$ (8,814) | \$ (3,026) | \$ (13,823) | \$ (7,548) |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 57.4% | 56.3% | 55.9% | 54.6% |
| Gross profit | 42.6% | 43.7% | 44.1% | 45.4% |
| Expenses: | | | | |
| Selling and operating | 28.2% | 41.4% | 35.2% | 43.7% |
| Corporate, general and administration | 7.9% | 6.8% | 8.5% | 7.9% |
| Other general expense | 0.1% | 0.2% | 0.1% | 0.6% |
| Total expenses | 36.2% | 48.4% | 43.8% | 52.2% |
| Income (loss) from operations | 6.4% | -4.7% | 0.3% | -6.8% |
| Interest and other expense, net | -0.8% | -0.4% | -0.6% | -0.1% |
| Gain on sale on investment | % | % | % | 1.3% |
| Income (loss) before taxes and noncontrolling interest | 5.6% | -5.1% | -0.3% | -5.6% |
| Income tax expense | 0.9% | 1.1% | 0.5% | 0.6% |
| Net income (loss) from continuing operations | 4.7% | -6.2% | -0.8% | -6.2% |
| Loss from discontinued operations | -20.8% | -0.2% | -9.4% | % |
| Net income attributable to noncontrolling interest | -1.1% | -0.9% | -0.4% | -0.6% |
| Net loss attributable to Gaiam, Inc. | -17.2% | -7.3% | -10.6% | -6.8% |

Three months ended September 30, 2015 Compared to Three months ended September 30, 2014

Net revenue. Net revenue increased \$10.0 million, or 24.3%, to \$51.3 million during the third quarter of 2015, compared to \$41.3 million during the third quarter of 2014. Net revenue in our Gaiam Brand segment increased \$9.1 million, or 23.5%, to \$47.8 million during the third quarter of 2015 from \$38.7 million during the third quarter of 2014. The increase in revenues was due to the successful launch of our apparel line and additional branded product sales, offset by the planned reduction of our catalog business. Excluding planned declines in catalog sales, Gaiam Brand net revenue increased 29% to \$46.4 million in the third quarter. Net revenue in our Gaiam TV segment increased \$0.9 million, or 36.8%, to \$3.5 million during the third quarter of 2015 from \$2.6 million during the third quarter of 2014. Revenues increased due to the launch of Gaiam TV on Comcast in January 2015 and continued subscriber growth. Gaiam TV revenue growth was slowed as we reduced overall spending in an effort to achieve our goal of profitability in this business segment before September 30, 2015.

Cost of goods sold. Cost of goods sold increased \$6.2 million, or 26.7%, to \$29.4 million during the third quarter of 2015 from \$23.2 million during the third quarter of 2014. Cost of goods sold in our Gaiam Brand segment increased \$7.9 million, or 37.5%, to \$29.0 million during the third quarter of 2015 from \$21.1 million during the third quarter of 2014 and, as a percentage of net revenue, increased to 60.6% compared to 54.5% during the third quarter of 2014. The increase in costs of goods sold as a percentage of revenue is due to lower average margins on our new apparel line,

which is direct imported to the customer reducing our operating freight, fulfillment and inventory risk costs.

Selling and operating expenses. Selling and operating expenses decreased \$2.6 million, or 15.2%, to \$14.5 million during the third quarter of 2015 from \$17.1 million during the third quarter of 2014 and, as a percentage of net revenue, decreased to 28.2% during the third quarter of 2015 from 41.4% during the third quarter of 2014. The decrease was primarily due to reduced spending in our catalog business, and reduced marketing expenses for Gaiam TV, partially offset by increased staffing to support our new apparel line.

Corporate, general and administration expenses. Corporate, general and administration expenses increased \$1.3 million, or 45.4%, to \$4.1 million during the third quarter of 2015 from \$2.8 million during the third quarter of 2014 and, as a percentage of net revenue, increased to 7.9% during the third quarter of 2015 from 6.8% during the third quarter of 2014. The increase was due to new headcount and compensation expenses, plus infrastructure spending to support the growth of the business and other one-time charges.

Loss from discontinued operations. During the third quarter of 2015, the Company recognized \$10.7 million in costs associated with the Cinedigm arbitration and settlement including a non-cash charge of \$7.3 million for the working capital receivable due from Cinedigm. The parties entered into a Confidential Settlement Agreement and Release on September 30, 2015 (the Settlement). The Settlement resolves all of the parties' claims with the sole exception of a single claim related to the reconciliation of cash collected.

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by the Company, to be resolved through one final arbitration (which has not yet been scheduled). The Settlement limits the Company's potential exposure in connection with the pending final arbitration. The company believes it has adequately accrued for the pending arbitration and does not expect any material additional settlements beyond the current estimate. The Settlement does not constitute an admission by either party of any liability or wrongdoing whatsoever. The Company entered into the Settlement in order to eliminate the uncertainty and risk inherent in any litigation, significantly reduce the professional fees and costs that the litigation would require, and significantly reduce the distraction imposed by the process on management.

Net loss attributable to Gaiam, Inc. As a result of the above factors, net loss attributable to Gaiam, Inc. was \$8.8 million, or \$0.36 per share, during the third quarter of 2015 compared to a net loss of \$3.0 million, or \$0.12 per share, during the third quarter of 2014.

Nine months ended September 30, 2015 Compared to Nine months ended September 30, 2014

Net revenue. Net revenue increased \$18.8 million, or 16.9% to \$130.1 million during the first nine months of 2015, compared to \$111.3 million during the first nine months of 2014. Net revenue in our Gaiam Brand segment increased \$16.1 million, or 15.5%, to \$120.2 million during the first nine months of 2015 from \$104.0 million during the first nine months of 2014. The increase in revenues was due to the successful launch of our apparel line and additional branded product sales, offset by the planned reduction of our catalog business. Excluding planned declines in catalog sales, Gaiam Brand net revenue increased 22% to \$115.0 million year to date. Net revenue in our Gaiam TV segment increased \$2.6 million, or 36.1%, to \$9.9 million during the first nine months of 2015 from \$7.3 million during the first nine months of 2014. Revenues increased due to continued subscriber growth. Gaiam TV revenue growth was slowed as we reduced overall spending in an effort to achieve our goal of profitability in this business segment before September 30, 2015.

Cost of goods sold. Cost of goods sold increased \$12.0 million, or 19.7%, to \$72.8 million during the first nine months of 2015 from \$60.8 million during the first nine months of 2014. Cost of goods sold in our Gaiam Brand segment increased \$11.5 million, or 19.2%, to \$71.3 million during the first nine months of 2015 from \$59.8 million during the first nine months of 2014 and, as a percentage of net revenue increased to 59.3% during the first nine months of 2015 compared to 57.5% during the first nine months of 2014. The increase in costs of goods sold as a percentage of revenue is due to lower average margins on our new apparel line, which is direct imported to the customer reducing our operating freight, fulfillment and inventory risk costs.

Selling and operating expenses. Selling and operating expenses decreased \$2.9 million, or 6.0%, to \$45.7 million during the first nine months of 2015 from \$48.6 million during the first nine months of 2014 and, as a percentage of net revenue, decreased to 35.2% during the first nine months of 2015 from 43.7% during the first nine months of 2014. The decrease was primarily due to reduced spending in our catalog business, partially offset by increased marketing expenses for Gaiam TV and staffing to support our new apparel line.

Corporate, general and administration expenses. Corporate, general and administration expenses increased \$2.3 million, or 26.5%, to \$11.1 million during the first nine months of 2015 from \$8.8 million during the first nine months of 2014 and, as a percentage of net revenue, increased to 8.5% during the first nine months of 2015 compared to 7.9% during the first nine months of 2014. The increase was due to new headcount and compensation expenses, plus infrastructure to support the growth of the business, coupled with the arrival and severance of an executive officer during the first nine months of 2015, and other one-time charges.

Other general expense. During the first nine months of 2015, we incurred \$0.2 million of legal and auditing costs related to the potential spin-off of Gaiam TV, into a separately-traded public company. Expenses associated with the

spin-off during the first nine months of 2014 were \$0.7 million.

Interest and Other Expense, net. During the first nine months of 2015, we incurred \$0.3 million associated with the startup of a new joint venture and we also recorded \$0.5 million of foreign currency losses due to the strength of the U.S. Dollar in international markets. There were no similar charges during 2014.

Gain on sale of investments. We did not sell any investments or recognize any gains on sales of investments during the first nine months of 2015. During the first nine months of 2014, we sold all our shares of Cinedigm and most of our remaining shares of RGSE stock and recognized an aggregate gain of \$1.5 million.

(Loss) income from discontinued operations. During the first nine months of 2015, the Company recognized \$12.3 million in costs associated with the Cinedigm arbitration and settlement including a non-cash charge of \$7.3 million for the working capital receivable due from Cinedigm. The parties entered into the Settlement on September 30, 2015. The Settlement resolves all of the parties' claims with the sole exception of a single claim related to the reconciliation of cash collected by the Company, to be resolved through one final arbitration (which has not yet been scheduled). The Settlement limits the Company's potential exposure in

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connection with the pending final arbitration. The company believes it has adequately accrued for the pending arbitration and does not expect any material additional settlements beyond the current estimate. The Settlement does not constitute an admission by either party of any liability or wrongdoing whatsoever. The Company entered into the Settlement in order to eliminate the uncertainty and risk inherent in any litigation, significantly reduce the professional fees and costs that the litigation would require, and significantly reduce the distraction imposed by the process on management.

Net loss attributable to Gaiam, Inc. As a result of the above factors, net loss attributable to Gaiam, Inc. was \$13.8 million, or \$0.56 per share, during the first nine months of 2015 compared to a net loss of \$7.5 million, or \$0.31 per share, during the first nine months of 2014.

Seasonality

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

Liquidity and Capital Resources

Our capital needs arise from working capital required to fund operations, capital expenditures related to acquisition and development of media content, development and marketing of our e-commerce and digital platforms and new products, acquisitions of new businesses, replacements, expansions and improvements to our infrastructure, and future growth. These capital requirements depend on numerous factors, including the rate of market acceptance of our product offerings, our ability to expand our customer base, the cost of ongoing upgrades to our product offerings, the level of expenditures for sales and marketing, the level of investment in distribution systems and facilities and other factors. Additionally, we will continue to pursue opportunities to expand our media libraries, evaluate possible investments in businesses, products and technologies, and increase our sales and marketing programs and brand promotions as needed. At September 30, 2015, our cash balance was \$20.1 million. We estimate that our capital expenditures will total approximately \$9.0 million for 2015.

Cash Flows

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

| (in thousands) | For the Nine Months Ended September 30, | |
|--|--|------------|
| | 2015 | 2014 |
| Net cash provided by (used in): | | |
| Operating activities continuing operations | \$ 16,155 | \$ (7,121) |
| Operating activities discontinued operations | (3,985) | (68) |
| Operating activities | 12,170 | (7,189) |
| Investing activities | (6,907) | (2,956) |
| Financing activities | (326) | 1,506 |
| Effects of exchange rates on cash | (632) | (169) |
| Net increase (decrease) in cash | \$ 4,305 | \$ (8,808) |

Operating activities- continuing operations. Cash flow from continuing operations increased \$23.2 million during the first nine months of 2015 compared to the same period in 2014. The increase was primarily due to \$5.9 million of reduced losses from continuing operations, \$4.5 million reduction in inventory levels as a result of streamlining our product offering, and \$8.2 million of decreased payments of participations payable and other current liabilities.

Operating activities- discontinued operations. Cash flow from discontinued operations decreased \$3.9 million during the first nine months of 2015 compared to the same period in 2014. The decrease in 2015 was due to increased expenses associated with the arbitration and settlement of our legal dispute resulting from the sale of GVE to Cinedigm.

Investing activities. Cash flow from investing activities decreased \$4.0 million during the first nine months of 2015 compared to the same period in 2014. The change between years is due to \$2.7 million additional capital spending for new apps, media, software and equipment during 2015 and two, one-time events during 2014: we received \$2.6 million from sales of RGSE and Cinedigm stock, and we spent \$1.4 million to acquire Modern Lotus Limited (Yoga Studio).

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Financing activities. Our financing activities used net cash of \$0.3 million during the first nine months of 2015 and provided net cash of \$1.5 million during the first nine months of 2014. The change between years is primarily due to a \$1.5 million decrease in stock option exercises.

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

In the normal course of our business, we investigate, evaluate and discuss acquisition, joint venture, minority investment, strategic relationship and other business combination opportunities in our market. For any future investment, acquisition or joint venture opportunities, we may consider using then-available liquidity, issuing equity securities or incurring additional indebtedness.

While there can be no assurances, we believe our cash on hand, cash expected to be generated from operations, cash that could be raised by the sale of our shelf registration stock, tax savings from net operating losses, and potential borrowing capabilities should be sufficient to fund our operations on both a short-term and long-term basis. In addition, we own our corporate headquarters and could enter into additional financing or sale/leaseback transaction to provide additional funds. However, our projected cash needs may change as a result of acquisitions, product development, unforeseen operational difficulties or other factors.

The potential spinoff of Gaiaam TV will have a significant impact on our liquidity if it occurs, as Gaiaam will no longer be required to fund the operating losses or capital expenditures of Gaiaam TV. As discussed in Note 2, we transferred ownership of our principal offices to Gaiaam TV in January 2015. As a result, our principal offices, which are fully owned by us, will no longer be available as a potential source of financing to Gaiaam after the spinoff.

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 September 30, 2015:

| (in thousands) | Total | < 1 year | 1-3 years | 3-5 years | > 5 years |
|--------------------------------------|-----------------|--------------------|------------------|------------------|---------------------|
| Operating lease payments | \$ 665 | \$ 622 | \$ 43 | \$ | \$ |
| Minimum distribution payments | 3,730 | 2,651 | 1,079 | | |
| Total contractual obligations | \$ 4,395 | \$ 3,273 | \$ 1,122 | \$ | \$ |

Risk Factors

There are risks and uncertainties that could cause our actual results to be materially different from those indicated by forward looking statements that we make from time to time in filings with the Securities and Exchange Commission, news releases, reports, proxy statements, registration statements and other written communications as well as oral forward looking statements made from time to time by our representatives. These risks and uncertainties include those risks listed in our annual report on Form 10-K for the year ended December 31, 2014. Historical results are not necessarily an indication of the future results. Except for the historical information contained herein, the matters discussed in this analysis are forward-looking statements that involve risk and uncertainties, including, but not limited to, general economic and business conditions, competition, pricing, brand reputation, consumer trends, and other

factors which are often beyond our control. We do not undertake any obligation to update forward-looking statements except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which include changes in foreign exchange rates. We do not engage in financial transactions for trading or speculative purposes. We hold foreign currency and occasionally have forward contracts for foreign currency transactions, the gains and losses from which have been immaterial. We hold a controlling financial interest in Gaiam PTY, an Australian based joint venture. Since Gaiam PTY's functional currency is the Australian dollar, this subsidiary exposes us to risk associated with foreign currency exchange rate fluctuations. However, we have determined that no material market risk exposure to our consolidated financial position, results from operations or cash flows existed as of September 30, 2015.

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act. Based upon its evaluation as of September 30, 2015, our management has concluded that those disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the three months ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

As previously disclosed, on September 30, 2015, the Company entered into the Settlement in connection with the Cinedigm arbitration. See Note 11, Commitments and Contingencies, to the interim condensed consolidated financial statements for further details about this proceeding, which disclosure is incorporated by reference herein.

Item 1A. Risk Factors

No material changes.

Item 6. Exhibits**Exhibit**

| No. | Description |
|------------|--|
| 31.1* | Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 31.2* | Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 32.1** | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |

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| | |
|---------|--|
| 101.SCH | XBRL Taxonomy Extension Schema. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. |

* Filed herewith

** Furnished herewith

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SIGNATURES

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

Gaiam, Inc.
(Registrant)

November 6, 2015
Date

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

(authorized officer)

November 6, 2015
Date

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

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EXHIBIT INDEX

Exhibit

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

* Filed herewith

** Furnished herewith