

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

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COLORADO
(State or other jurisdiction of
incorporation or organization)

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

833 WEST SOUTH BOULDER ROAD

LOUISVILLE, 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:

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

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

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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.

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GAIAM, INC.

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2012

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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.

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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.

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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

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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.

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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

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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.

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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

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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.

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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 Videocast, 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.

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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.

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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 provides information about us, our history, goals and philosophy, as well as certain financial reports and corporate press releases. Our 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.

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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

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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

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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;

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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.

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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

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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.

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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

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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.

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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

Locations	Size	Use	Lease Expiration
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**