

GAIAM, INC
Form 10-Q
May 10, 2016
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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 March 31, 2016

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

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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 May 5, 2016 |
|--|----------------------------|
| Class A Common Stock (\$.0001 par value) | 19,141,888 |
| 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, history of operating losses, 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, effects of the sale of our eco-travel business, the pending sale of our Gaiam brand business and uncertainties included in our filings with the Securities and Exchange Commission. We caution you that no forward-looking statement is a guarantee of future performance, and you should not place undue reliance on these forward-looking statements, which reflect our view only as of the date of this report. We undertake no obligation to update any forward-looking information.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Unaudited Interim Condensed Consolidated Financial Statements

We have prepared our unaudited interim condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to these rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, the unaudited interim condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, our consolidated financial position as of March 31, 2016, the interim results of operations for the three months ended March 31, 2016 and 2015, and cash flows for the three months ended March 31, 2016 and 2015. These interim statements have not been audited. The balance sheet as of December 31, 2015 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, 2015.

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

| (in thousands, except share and per share data) | March 31, 2016 (unaudited) | December 31, 2015 |
|---|----------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 11,228 | \$ 13,772 |
| Accounts receivable, net | 13,002 | 26,999 |
| Inventory, less allowances | 16,847 | 17,303 |
| Other current assets | 14,351 | 14,843 |
| Total current assets | 55,428 | 72,917 |
| Property and equipment, net | 25,590 | 25,046 |
| Media library, net | 9,348 | 9,117 |
| Goodwill | 15,448 | 15,448 |
| Other intangibles, net | 782 | 866 |
| Other assets | 4,160 | 5,148 |
| Total assets | \$ 110,756 | \$ 128,542 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 10,437 | \$ 19,384 |
| Accrued liabilities | 20,779 | 20,365 |
| Total current liabilities | 31,216 | 39,749 |
| Commitments and contingencies | | |
| Equity: | | |
| Gaiam, Inc. shareholders' equity: | | |
| Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 19,141,888 and 19,130,681 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively | 2 | 2 |
| Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at March 31, 2016 and December 31, 2015 | 1 | 1 |
| Additional paid-in capital | 172,672 | 172,371 |
| Accumulated other comprehensive loss | (273) | (399) |
| Accumulated deficit | (95,659) | (88,035) |
| Total Gaiam, Inc. shareholders' equity | 76,743 | 83,940 |
| Noncontrolling interest | 2,797 | 4,853 |
| Total equity | 79,540 | 88,793 |

| | | |
|------------------------------|------------|------------|
| Total liabilities and equity | \$ 110,756 | \$ 128,542 |
|------------------------------|------------|------------|

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 March 31, | |
|--|---|---------------|
| | 2016 | 2015 |
| | (unaudited) | |
| Net revenue | \$ 35,327 | \$ 37,638 |
| Cost of goods sold | 18,937 | 20,391 |
| Gross profit | 16,390 | 17,247 |
| Expenses: | | |
| Selling and operating | 20,223 | 16,720 |
| Corporate, general and administration | 4,370 | 3,412 |
| Total expenses | 24,593 | 20,132 |
| Loss from operations | (8,203) | (2,885) |
| Interest and other income (expense), net | 509 | (484) |
| Loss before income taxes and noncontrolling interest | (7,694) | (3,369) |
| Income tax (benefit) expense | (9) | 49 |
| Net loss from continuing operations | (7,685) | (3,418) |
| Loss from discontinued operations, net of tax | | (466) |
| Net loss | (7,685) | (3,884) |
| Net loss (income) attributable to noncontrolling interest | 61 | (8) |
| Net loss attributable to Gaiam, Inc. | \$ (7,624) | \$ (3,892) |
| Net loss per share attributable to Gaiam, Inc. common shareholders basic and diluted: | | |
| From continuing operations | \$ (0.31) | \$ (0.14) |
| From discontinued operations | \$ | \$ (0.02) |
| Net loss per share attributable to Gaiam, Inc. | \$ (0.31) | \$ (0.16) |
| Weighted-average shares outstanding: | | |
| Basic and Diluted | 24,531 | 24,490 |

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 March 31, | |
|--|---|-------------|
| | 2016 | 2015 |
| | (unaudited) | |
| Net loss | \$ (7,685) | \$ (3,884) |
| Accumulated other comprehensive income (loss): | | |
| Foreign currency translation gain (loss), net of tax | 75 | (67) |
| Comprehensive loss | (7,610) | (3,951) |
| Less: comprehensive loss attributable to the noncontrolling interest | 112 | 14 |
| Comprehensive loss attributable to Gaiam, Inc. | \$ (7,498) | \$ (3,937) |

See accompanying notes to the interim condensed consolidated financial statements

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

| (in thousands) | For the Three Months Ended March 31, | |
|--|---|---------------------|
| | 2016 | 2015 (unaudited) |
| Operating activities | | |
| Net loss | \$ (7,685) | \$ (3,884) |
| Loss from discontinued operations | | 466 |
| Net loss from continuing operations | (7,685) | (3,418) |
| Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities continuing operations: | | |
| Depreciation | 594 | 590 |
| Amortization | 764 | 543 |
| Share-based compensation expense | 301 | 283 |
| Loss (gain) on equity method investments | 413 | (24) |
| Unrealized (gain) loss on translation of foreign currency contracts and balances | (945) | 544 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 14,076 | 14,657 |
| Inventory, less allowances | 488 | (12) |
| Other current and long term assets | 974 | (3,318) |
| Accounts payable | (8,110) | (4,924) |
| Accrued liabilities | 523 | (81) |
| Net cash provided by operating activities continuing operations | 1,393 | 4,840 |
| Net cash used in operating activities discontinued operations | | (184) |
| Net cash provided by operating activities | 1,393 | 4,656 |
| Investing activities | | |
| Purchase of property, equipment and media rights | (2,041) | (2,317) |
| Purchase of businesses, net of acquired cash | | (223) |
| Net cash used in investing activities | (2,041) | (2,540) |
| Financing activities | | |
| Proceeds from issuance of stock | | 133 |
| Drawdowns on line of credit | 2,000 | |
| Repayments on line of credit | (2,000) | |
| Dividends paid to noncontrolling interest | (1,944) | (486) |
| Net cash used in financing activities | (1,944) | (353) |

| | | |
|----------------------------------|------------------|---------------|
| Effect of exchange rates on cash | 48 | (641) |
| Net change in cash | (2,544) | 1,122 |
| Cash at beginning of period | 13,772 | 15,772 |
| Cash at end of period | \$ 11,228 | 16,894 |

Supplemental cash flow information

| | | |
|-------------------|--------|--------|
| Income taxes paid | \$ 260 | \$ 285 |
| Interest paid | \$ 15 | \$ 3 |

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 Gaiam refer to Gaiam, Inc. and its consolidated subsidiaries, unless we indicate otherwise.

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

Gaiam provides 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. Gaia, our global subscription video streaming service, provides our members with access to conscious media on most internet-connected devices anytime, anywhere commercial free. 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.

Recent Accounting Pronouncements

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-17, Income Taxes - Balance Sheet Classification of Deferred Taxes (Topic 740). The amendments under the new guidance require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The guidance is effective for consolidated financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The new ASU is not expected to have a material impact on our reported financial position or results of operations.

2. Spin-off of Gaia

On February 20, 2015, our wholly-owned subsidiary Gaia, Inc. (Gaia) filed a registration statement on Form 10 with the Securities and Exchange Commission in connection with the previously announced proposed separation of the Gaia segment from the Gaiam Brand segment into two separate publicly traded companies. Gaia filed an amended Form 10 with the Securities and Exchange Commission on May 29, 2015, September 9, 2015 and February 17, 2016. Gaia has filed a listing application with NASDAQ and is in the process of listing on NASDAQ in anticipation of the spin-off. As of March 31, 2016, we expected that the proposed tax-free spin-off would occur through a distribution to Gaiam, Inc. s shareholders of all the stock of Gaia. Gaia would hold all of the assets and liabilities of the Gaia segment. The Gaiam Brand segment would remain with Gaiam, 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, Gaia anticipated entering into a reorganization agreement with Gaiam, 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 Gaia and Gaiam, Inc. with respect to and resulting from the spin-off. The reorganization agreement would also provide that the holders of options to purchase Gaiam, Inc. Class A common stock who are employees or non-employee directors of Gaiam, Inc. on the record date for the distribution would receive options to purchase shares of Gaia's Class A common stock in the same ratio as shareholders. Additionally there would be a corresponding adjustment to the existing Gaiam, Inc. options held by such holder. The spin-off would not constitute a change in control for purposes of Gaiam, Inc.'s equity plans, and therefore no vesting of awards would occur as a result of the spin-off. In addition, the reorganization agreement would address the treatment of the various insurance policies held by Gaiam, Inc. and Gaia after the spin-off. In anticipation of the spin-off, Gaia has entered into multiple license agreements with Gaiam, Inc. including a license agreement for the use of the Gaiam trade name, and related trademarks and service marks following the spin-off.

Providing the spin-off is completed, Gaia anticipates entering into a transition services agreement with Gaiam, Inc. in connection with the separation. Under the transition services agreement, Gaiam, Inc. and Gaia 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 would be allocated and included in the service charge. The employees of Gaia would remain eligible employees under certain employee benefit plans currently maintained by Gaiam, Inc., which would be managed under the transition services agreement.

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Effective January 1, 2015, Gaiam, Inc. contributed to Gaia 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., Gaia and various other companies. The Gaiam, Inc. business unit and the Gaia 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. Joint Venture

In 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 provides rights to an infomercial which it has developed, and the third party provides 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 March 31, 2016, the Company recognized a non-cash loss of \$0.4 million associated with the venture which is included in Interest and other income (expense), net in the accompanying condensed consolidated statements of operations.

4. Credit Facility

In 2015 Boulder Road LLC, a subsidiary of Gaia, 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 Gaia, 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 in excess of the amount of the line of credit. During the three months ended March 31, 2016, Gaia drew and repaid \$2.0 million on the line of credit. No amounts were outstanding under the line of credit as of March 31, 2016.

5. Derivatives

Our operations in foreign countries expose us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies. We use derivative instruments to manage a portion of our exposure to changes in currency exchange rates due to payments made by our eco-travel subsidiary to tour operators in Canada, South Africa, Australia, Europe, Denmark, and New Zealand. Our primary objective for entering into currency derivatives is to reduce the volatility that changes in currency exchange rates have on our earnings. In general, the market risk related to these contracts is offset by corresponding gains and losses on the hedged transactions. By working only with major banks and closely monitoring current market conditions, we seek to limit the risk that counterparties to these contracts may be unable to perform. We have presented amounts on a gross basis as we do not have any master netting agreements with counterparties. We do have the legal right to net settle transactions of the same currency with a single net amount payable by one party or the other. We do not enter into derivative contracts for trading purposes.

The cash flow effects of our derivative contracts for the three months ended March 31, 2016 are included within Net cash provided by operating activities in the Statements of Cash Flows. Realized and unrealized gains and losses on currency derivatives without hedge accounting designation are included in Interest and other (expense) income, net in the accompanying statements of operations. For the period ended March 31, 2016 the gain recognized was \$0.9 million. The asset related to the fair value of the hedging instruments has been included in Other current assets in the accompanying balance sheet.

Total notional amounts and gross fair values for derivative instruments without hedge accounting designation were as follows as of March 31, 2016:

| (in thousands) | March 31, 2016 | | December 31, 2015 | |
|-----------------------------------|------------------------------|------------------------------------|------------------------------|---|
| | Notional Amount in USD | Fair Value of Current Assets | Notional Amount in USD | Fair Value of Current Liabilities |
| Currency forward contracts | | | | |
| Canadian dollars | \$ 10,701 | \$ 309 | \$ 4,200 | \$ (246) |
| Other currencies | 1,435 | 44 | 1,372 | (83) |
| | \$ 12,136 | \$ 353 | 5,572 | (329) |
| Currency option contracts | | | | |
| Canadian dollars | | | 8,514 | (252) |
| Total | \$ 12,136 | \$ 353 | \$ 14,086 | \$ (581) |

As of March 31, 2016, \$9.0 million of our outstanding contracts will mature in the next 12 months, and \$3.1 million will mature the following year.

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During the first three months of 2016, we issued 11,000 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 2016. 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 three months of 2016, we did not issue any stock in connection with option exercises. The following is a reconciliation from December 31, 2015 to March 31, 2016 of the carrying amount of total equity, equity attributable to Gaiam, Inc., and equity attributable to the noncontrolling interest.

| (in thousands) | Gaiam, Inc. Shareholders | | | | | | |
|--|--------------------------|--------------------|---------------------|--------------------|-------------------|------------|---------------------------------|
| | Accumulated | | Class A | | Other and Class B | | Paid-in Noncontrolling Interest |
| | Total | Comprehensive Loss | Accumulated Deficit | Comprehensive Loss | Common Stock | Capital | |
| Balance at December 31, 2015 | \$ 88,793 | | \$ (88,035) | \$ (399) | \$ 3 | \$ 172,371 | \$ 4,853 |
| Issuance of Gaiam, Inc. common stock for stock option exercises and share-based compensation | 301 | | | | | 301 | |
| Dividends paid to noncontrolling interest | (1,944) | | | | | | (1,944) |
| Comprehensive loss: | | | | | | | |
| Net (loss) income | (7,685) | (7,685) | (7,624) | | | | (61) |
| Foreign currency translation adjustment, net of taxes of \$32 | 75 | 75 | | 126 | | | (51) |
| Comprehensive loss | | \$ (7,610) | | | | | |
| Balance at March 31, 2016 | \$ 79,540 | | \$ (95,659) | \$ (273) | \$ 3 | \$ 172,672 | \$ 2,797 |

7. Share-Based Payments

During the first three months of 2016 and 2015, we extended the term of certain options granted under our 2009 Long-Term Incentive Plan to members of our executive team for an additional three months, and recognized \$40,000 and \$50,000 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 1,071,000 and 1,088,000 from

the computation of diluted net loss per share attributable to Gaiam, Inc. common shareholders for the three months ended March 31, 2016 and 2015, respectively, because their effect was antidilutive.

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

| (in thousands, except per share data) | Three Months Ended March 31, | |
|---|---|-------------|
| | 2016 | 2015 |
| Net loss attributable to Gaiam, Inc. common shareholders: | | |
| Loss from continuing operations | \$ (7,624) | \$ (3,426) |
| Loss from discontinued operations | | (466) |
| Net loss attributable to Gaiam, Inc. | \$ (7,624) | \$ (3,892) |
| Weighted average shares for basic and diluted net loss per share | 24,531 | 24,490 |
| Net loss per share attributable to Gaiam, Inc. common shareholders basic and diluted: | | |
| Loss from continuing operations | \$ (0.31) | \$ (0.14) |
| Loss from discontinued operations | \$ | \$ (0.02) |
| Basic and diluted net loss per share attributable to Gaiam, Inc. | \$ (0.31) | \$ (0.16) |

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 March 31, 2016, our gross net operating losses were \$86.3 million and \$16.4 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.

Gaia: This segment includes our digital video streaming service. It also includes the results of Boulder Road LLC. 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 or general corporate expenses 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 March 31, | |
|---|---------------------------------|------------|
| | 2016 | 2015 |
| Net revenue: | | |
| Gaiam Brand | \$ 31,497 | \$ 34,532 |
| Gaia | 3,830 | 3,106 |
| Consolidated net revenue | 35,327 | 37,638 |
| Contribution loss: | | |
| Gaiam Brand | (3,468) | (53) |
| Gaia | (3,449) | (2,359) |
| Segment contribution loss | (6,917) | (2,412) |
| Other unallocated corporate expenses | (1,286) | (473) |
| Consolidated contribution loss | (8,203) | (2,885) |
| Reconciliation of contribution loss to net loss attributable to Gaiam, Inc.: | | |
| Interest and other income (expense), net | 509 | (484) |
| Income tax benefit (expense) | 9 | (49) |
| Loss from discontinued operations | | (466) |
| Net loss (income) attributable to noncontrolling interest | 61 | (8) |
| Net loss attributable to Gaiam, Inc. | \$ (7,624) | \$ (3,892) |

As discussed in Note 2, Gaia filed amendments to its registration statement on Form 10 with the SEC on September 9, 2015 and February 17, 2016. The segment amounts presented here and discussed elsewhere in this quarterly report on Form 10-Q vary insignificantly from the amounts reported by Gaia in the Form 10, as amended, as the Form 10 requires that certain items be recast for stand-alone presentation.

11. Commitments and Contingencies

During 2015, we were involved in various legal disputes with Cinedigm Corp. and Cinedigm Entertainment Holdings, LLC (together, Cinedigm) in connection with our sale of GVE Newco, LLC (GVE) to Cinedigm. The disputes were fully settled at the end of 2015.

During the three months ended March 31, 2015, the Company recorded charges of \$0.5 million for legal costs associated with the disputes. The expenses associated with the disputes 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 March 31, 2016 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, a wholly-owned subsidiary to Cinedigm. As discussed in Note 11, Commitments and Contingencies, we were involved in legal disputes with Cinedigm associated with the sale, which were settled during 2015. The results of discontinued operations reported in the accompanying financial statements relate solely to legal costs associated with the disputes.

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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 balance in the accrual for termination benefits remained at \$1.7 million during the three months ended March 31, 2016.

14. Subsequent Events

Pending Sale of the Brand Business

On May 10, 2016 we entered into agreements to sell the assets and liabilities of our Gaiam Brand Business in exchange for \$167.0 million. The Brand Business consists of all the assets and liabilities of our Gaiam Brand segment, except for our interest in our eco-travel subsidiary, which was sold on May 4, 2016 as explained below. Our Gaiam Brand Business constitutes the vast majority of our consolidated revenues and expenses, and consists of our yoga, fitness and wellness consumer products, and content. If the sale of the Brand Business is consummated, our remaining business will consist of our Gaia video subscription service business and on-line community and will operate in our Gaia segment. Upon closing the sale of the Brand Business, we expect to conduct a tender offer for up to 12 million shares of our Class A common stock and vested stock options. The sale of our Brand Business is planned to occur after the period covered by this report. Therefore, the information in this report should be read in light of the pending sale of our Brand Business. There can be no assurance that we will be able to successfully consummate the sale of our Brand Business.

Sale of Natural Habitat

On May 4, 2016 we sold all our interest in Natural Habitat, Inc. (Natural Habitat), our eco-travel subsidiary, in exchange for \$12.85 million in cash.

The following pro forma condensed consolidated financial information is based on our historical financial statements, including certain pro forma adjustments, and has been prepared to illustrate the pro forma effect of the sale of Natural Habitat. The unaudited pro forma condensed consolidated statements of operations for the quarter ending March 31, 2016 and for the year ending December 31, 2015 assume that the sale occurred as of January 1, 2015. The unaudited pro forma condensed consolidated balance sheet as of March 31, 2016 is presented as if the sale had occurred on March 31, 2016.

The unaudited pro forma condensed consolidated financial information has been prepared based upon available information and management estimates; actual amounts may differ from these estimated amounts. The unaudited pro forma condensed consolidated financial information is not necessarily indicative of the financial position or results of operations that might have occurred had the sale occurred as of the dates stated above. The pro forma adjustments are described in the notes.

The unaudited pro forma condensed consolidated financial information should be read in conjunction with the audited financial statements and notes and related Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Table of Contents*Unaudited Pro Forma Condensed Consolidated Financial Information***Gaiam, Inc.****Unaudited Pro Forma Condensed Consolidated Statement of Operations****Quarter Ending March 31, 2016**

(in thousands, except per share data)

| | Gaiam Historical Financial Statements | Less: Natural Habitat Historical Financial Statements (a)(c) | Pro Forma Adjustments (Disposition of Natural Habitat) | Notes | Pro Forma Results (Adjusted for Disposition of Natural Habitat) |
|--|--|---|---|--------------|--|
| Net revenues | \$ 35,327 | \$ 9,585 | \$ | | \$ 25,742 |
| Cost of goods sold | 18,937 | 6,312 | | | 12,625 |
| Gross profit | 16,390 | 3,273 | | | 13,117 |
| Selling, general, and administrative | 24,593 | 4,209 | 3 | (b) | 20,387 |
| Loss from operations | (8,203) | (936) | (3) | | (7,270) |
| Interest and other income (expense) | 509 | 944 | | | (435) |
| (Loss) income before income taxes | (7,694) | 8 | (3) | | (7,705) |
| Income tax (benefit) expense | (9) | 1 | | | (10) |
| Net (loss) income from continuing operations | (7,685) | 7 | (3) | | (7,695) |
| Net loss attributable to noncontrolling interest | 61 | 47 | | | 14 |
| Net (loss) income from continuing operations attributable to Gaiam, Inc. | \$ (7,624) | \$ 54 | \$ (3) | | \$ (7,681) |
| Net loss from continuing operations per share: | | | | | |
| Basic and Diluted | \$ (0.31) | | | | \$ (0.31) |
| Weighted-average shares outstanding: | | | | | |
| Basic and Diluted | 24,531 | | | | 24,531 |

(a) Represents the revenues and expenses excluding certain fixed overhead costs of Natural Habitat included in Gaiam's historical financial statements.

- (b) Operating expenses are increased to reverse the impact of a human resources service allocation to Natural Habitat from Gaiam.
- (c) Results are consolidated then adjusted for noncontrolling interests. Gaiam owned 51.4% of Natural Habitat.

Table of Contents*Unaudited Pro Forma Condensed Consolidated Financial Information***Gaiam, Inc.****Unaudited Pro Forma Condensed Consolidated Statement of Operations****Year Ending December 31, 2015**

(in thousands, except per share data)

| | Gaiam Historical Financial Statements | Less: Natural Habitat Historical Financial Statements (a)(c) | Pro Forma Adjustments (Disposition of Natural Habitat) | Notes | Pro Forma Results (Adjusted for Disposition of Natural Habitat) |
|---|--|---|---|--------------|--|
| Net revenues | \$ 188,018 | \$ 43,514 | \$ | | \$ 144,504 |
| Cost of goods sold | 103,249 | 27,544 | | | 75,705 |
| Gross profit | 84,769 | 15,970 | | | 68,799 |
| Selling, general, and administrative | 80,588 | 12,126 | 10 | (b) | 68,472 |
| Income (loss) from operations | 4,181 | 3,844 | (10) | | 327 |
| Interest and other income (expense) | (1,406) | (1,168) | | | (238) |
| Loss from equity method investments | (465) | | | | (465) |
| Income (loss) before income taxes | 2,310 | 2,676 | (10) | | (376) |
| Income tax expense (benefit) | 1,219 | 1,154 | | | 65 |
| Net income (loss) from continuing operations | 1,091 | 1,522 | (10) | | (441) |
| Net income attributable to noncontrolling interest | (694) | (672) | | | (22) |
| Net income (loss) from continuing operations attributable to Gaiam, Inc. | \$ 397 | \$ 850 | \$ (10) | | \$ (463) |
| Net income (loss) from continuing operations per share: | | | | | |
| Basic and Diluted | \$ 0.02 | | | | \$ (0.02) |
| Weighted-average shares outstanding: | | | | | |
| Basic | 24,510 | | | | 24,510 |
| Diluted | 24,612 | | | | 24,612 |

- (a) Represents the revenues and expenses excluding certain fixed overhead costs of Natural Habitat included in Gaiam's historical financial statements.
- (b) Operating expenses are increased to reverse the impact of a human resources service allocation to Natural Habitat from Gaiam.
- (c) Results are consolidated then adjusted for noncontrolling interests. Gaiam owned 51.4% of Natural Habitat.

Table of Contents*Unaudited Pro Forma Condensed Consolidated Financial Information***Gaiam, Inc.****Unaudited Pro Forma Condensed Consolidated Balance Sheet****As of March 31, 2016**

(in thousands)

| | Gaiam Historical Financial Statements | Less: Natural Habitat Historical Financial Statements (a) | Pro Forma Adjustments (Disposition of Natural Habitat) | Notes | Pro Forma Results (Adjusted for Disposition of Natural Habitat) |
|--|--|--|---|--------------|--|
| Cash | \$ 11,228 | \$ 3,951 | \$ 11,050 | (b) | \$ 18,327 |
| Accounts receivable, net | 13,002 | 389 | | | 12,613 |
| Inventory, less allowances | 16,847 | | | | 16,847 |
| Other current assets | 14,351 | 8,714 | | | 5,637 |
| Total current assets | 55,428 | 13,054 | 11,050 | | 53,424 |
| Property and equipment, net | 25,590 | 1,418 | | | 24,172 |
| Media library, net | 9,348 | | | | 9,348 |
| Goodwill | 15,448 | 3,384 | | | 12,064 |
| Other intangibles, net | 782 | 75 | | | 707 |
| Other assets | 4,160 | 423 | | | 3,737 |
| Total assets | \$ 110,756 | \$ 18,354 | \$ 11,050 | | \$ 103,452 |
| Accounts payable | \$ 10,437 | \$ 2,615 | \$ | | \$ 7,822 |
| Accrued liabilities | 20,779 | 13,310 | 544 | (c) | 8,013 |
| Total current liabilities | 31,216 | 15,925 | 544 | | 15,835 |
| Total Gaiam, Inc. shareholders' equity | 76,743 | 1,501 | 10,506 | (d) | 85,748 |
| Noncontrolling interest | 2,797 | 928 | | | 1,869 |
| Total equity | 79,540 | 2,429 | 10,506 | | 87,617 |
| Total liabilities and equity | \$ 110,756 | \$ 18,354 | \$ 11,050 | | \$ 103,452 |

- (a) Represents the assets, liabilities, and equity attributable to Natural Habitat included in Gaiam's historical financial statements.
- (b) Cash is adjusted to reflect the \$11.0 million estimated net proceeds from the sale.
- (c) Accrued liabilities have been adjusted to reflect the accrual of estimated nonrecurring costs directly related to the disposition (not paid in close).
- (d) Equity is adjusted to reflect the estimated net gain of \$9.0 million on the sale of Natural Habitat. We expect that there will be minimal income taxes on the gain due to utilization of our net operating losses.

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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.

Recent Developments

Sale of Natural Habitat

On May 4, 2015 we sold all our interest in Natural Habitat, Inc. (Natural Habitat), our eco-travel subsidiary, for \$12.85 million in cash. Our eco-travel subsidiary and business was part of our Gaiam Brand segment. After the sale, our Gaiam Brand segment consists of our yoga, fitness and wellness consumer products, and content. The sale of our eco-travel subsidiary and business occurred after the period covered by this report. Therefore, the information in this report, including, without limitation, the following discussion and analysis of our financial condition and results of operations, should be read in light of the sale of our eco-travel subsidiary and business. The pro-forma financial statements included herewith provide an illustration of our financial position and operating results excluding Natural Habitat.

Pending Sale of the Brand Business

On May 10, 2016, we entered into agreements pursuant to which we agreed to sell the assets and liabilities primarily related to, or used in, our yoga, fitness and wellness consumer products business (the Brand Business). If the sale of the Brand Business is consummated, our business will consist of our Gaia video subscription service business and on-line community and will operate in our Gaia segment. Upon closing the sale of the Brand Business, we expect to conduct a tender offer for up to 12 million shares of our Class A common stock and vested stock options. The sale of our Brand Business is planned to occur after the period covered by this report. Therefore, the information in this report, including, without limitation, the following discussion and analysis of our financial condition and results of operations, should be read in light of the pending sale of our Brand Business. There can be no assurance that we will be able to successfully consummate the sale of our Brand Business.

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 and on-line community, Gaia, which is dedicated to creating, acquiring, and delivering conscious media. Through our business activities, we seek to position our brands 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 Gaia.

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, and the launch of our yoga apparel line during the first quarter of 2015. We plan to launch our new Wellbeing line in the pharmacy channel in 2016, further expanding our reach.

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. We recently launched or updated certain websites, evolving our e-commerce experience to focus on engaging customers through digital content, and social and mobile marketing across various devices. With the acquisition of Yoga Studio, the leading paid yoga app for mobile and tablet devices in the Apple U.S. App Store, and the launch of our new Meditation Studio app, we will continue to develop and leverage our interactive digital strategy as a point of brand engagement. We plan to invest in our online branding and digital offerings, develop emerging talent, utilize social media, and sponsor local events. Additionally, during 2015 we curtailed the circulation of our consumer catalogs focusing our direct-to-consumer strategy to online channels.

Gaia Segment

Gaia is a global digital video subscription service and on-line community with approximately 7,000 titles which caters to an underserved subscriber base. Gaia's digital content is available to subscribers on most internet-connected devices anytime, anywhere commercial free. The subscription also allows subscribers to download and view files from the library without being actively connected to the internet. Through Gaia 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 Gaia subscribers for digital streaming.

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Gaiam's board of directors has approved the separation of Gaia and Gaiam Brand into two separate publicly traded companies. If the pending sale of the Brand Business is not consummated, we expect to proceed with the spin-off. We 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 | |
|---|-----------------------------------|-------------|
| | March 31, | |
| | 2016 | 2015 |
| Net revenues | \$ 35,327 | \$ 37,638 |
| Gross profit | 16,390 | 17,247 |
| Selling and operating corporate, general and administration | 24,593 | 20,132 |
| Income (loss) from operations | (8,203) | (2,885) |
| Interest and other expense, net | 509 | (484) |
| Income (loss) before taxes and noncontrolling interest | (7,694) | (3,369) |
| Income tax expense | (9) | 49 |
| Net income (loss) from continuing operations | (7,685) | (3,418) |
| Loss from discontinued operations | | (466) |
| Net loss | (7,685) | (3,884) |
| Net income attributable to noncontrolling interest | 61 | (8) |
| Net loss attributable to Gaiam, Inc. | \$ (7,624) | \$ (3,892) |

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

| | Three Months Ended | |
|--|---------------------------|---------------|
| | March 31, | |
| | 2016 | 2015 |
| Net revenue | 100.0% | 100.0% |
| Cost of goods sold | 53.6% | 54.2% |
| Gross profit | 46.4% | 45.8% |
| Expenses: | | |
| Selling and operating | 57.2% | 44.4% |
| Corporate, general and administration | 12.4% | 9.1% |
| Total expenses | 69.6% | 53.5% |
| Income (loss) from operations | -23.2% | -7.7% |
| Interest and other expense, net | 1.4% | -1.3% |
| Income (loss) before taxes and noncontrolling interest | -21.8% | -9.0% |
| Income tax expense | 0.0% | 0.1% |
| Net income (loss) from continuing operations | -21.8% | -9.1% |
| Loss from discontinued operations | 0.0% | -1.2% |
| Net income attributable to noncontrolling interest | 0.2% | 0.0% |
| Net loss attributable to Gaiam, Inc. | -21.6% | -10.3% |

Three months ended March 31, 2016 Compared to Three months ended March 31, 2015

Net revenue. Net revenue decreased \$2.3 million, or 6.1%, to \$35.3 million during the first quarter of 2016, compared to \$37.6 million during the first quarter of 2015. Net revenue in our Gaiam Brand segment decreased \$3.0 million, or 8.8%, to \$31.5 million during the first quarter of 2016 from \$34.5 million during the first quarter of 2015. The decrease in revenues was due to the overall challenging retail environment (including the announcement of the Sports Authority bankruptcy), as well as the intentional decision to end private label business with one of our customers. Net revenue in our Gaia segment increased \$0.7 million, or 23.3%, to \$3.8 million during the first quarter of 2016 from \$3.1 million during the first quarter of 2015. Revenues increased due to continued subscriber growth.

Cost of goods sold. Cost of goods sold decreased \$1.5 million, or 7.1%, to \$18.9 million during the first quarter of 2016 from \$20.4 million during the first quarter of 2015. Cost of goods sold in our Gaiam Brand segment decreased \$1.6 million, or 7.8%, to \$18.3 million during the first quarter of 2016 from \$19.9 million during the first quarter of 2015 and, as a percentage of net revenue, increased slightly to 58.2% compared to 57.6% during the first quarter of 2015.

Selling and operating expenses. Selling and operating expenses increased \$3.5 million, or 21.0%, to \$20.2 million during the first quarter of 2016 from \$16.7 million during the first quarter of 2015 and, as a percentage of net revenue, increased to 57.2% during the first quarter of 2016 from 44.4% during the first quarter of 2015. The increase was

primarily due to increased marketing spending for rebranding and customer acquisition for Gaia, plus bad debt charges resulting from the Sports Authority bankruptcy and other one-time charges associated with the sale of Natural Habitat.

Corporate, general and administration expenses. Corporate, general and administration expenses increased \$1.0 million, or 28.1%, to \$4.4 million during the first quarter of 2016 from \$3.4 million during the first quarter of 2015 and, as a percentage of net revenue, increased to 12.4% during the first quarter of 2016 from 9.1% during the first quarter of 2015. The increase was due to one-time charges associated with the separation and sale of the businesses.

Interest and other income (expense). Interest and other income (expense) increased \$1.0 million primarily as a result of the increase in fair market value of our foreign currency contracts, caused by the declining value of the US Dollar.

Loss from discontinued operations. During the first quarter of 2015, the Company recognized \$0.5 million in costs associated with the Cinedigm legal disputes. Those disputes were settled at the end of 2015. No similar charges were incurred during 2016.

Net loss attributable to Gaiam, Inc. As a result of the above factors, net loss attributable to Gaiam, Inc. was \$7.6 million, or \$0.31 per share, during the first quarter of 2016 compared to a net loss of \$3.9 million, or \$0.16 per share, during the first quarter of 2015.

Table of Contents**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 March 31, 2016, our cash balance was \$11.2 million. We estimate that our capital expenditures will total approximately \$10.0 million for 2016 which will be funded through cash flow from operations.

Cash Flows

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

| (in thousands) | For the Three Months Ended March 31, | |
|--|---|----------|
| | 2016 | 2015 |
| Net cash provided by (used in): | | |
| Operating activities continuing operations | \$ 1,393 | \$ 4,840 |
| Operating activities discontinued operations | | (184) |
| Operating activities | 1,393 | 4,656 |
| Investing activities | (2,041) | (2,540) |
| Financing activities | (1,944) | (353) |
| Effects of exchange rates on cash | 48 | (641) |
| Net (decrease) increase in cash | \$ (2,544) | \$ 1,122 |

Operating activities- continuing operations. Cash flow from continuing operations decreased \$3.3 million during the first three months of 2016 compared to the same period in 2015. The increase was primarily due to increased operating losses during 2016, and increased payment of accounts payable, partially offset by reduced payments for advances and other assets.

Investing activities. Cash flow from investing activities decreased \$0.5 million during the first three months of 2016 compared to the same period in 2015. The change between years is due to timing of capital spending for new apps, media, software and equipment.

Financing activities. Cash flow from financing activities decreased \$1.5 million during the first three months of 2016 compared to the same period in 2015. The change between years is primarily due to a \$1.5 million increase in the dividend paid to the minority interest holder of our eco-travel subsidiary in anticipation of its sale.

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 spin-off of Gaia will have a significant impact on our liquidity if it occurs, as Gaiam will no longer be required to fund the operating losses or capital expenditures of Gaia. As discussed in Note 2, we transferred ownership of our principal offices to Gaia 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 Gaiam after the spin-off.

Table of Contents**Contractual Obligations**

We have commitments pursuant to operating lease and media distribution agreements. The following table shows our commitments to make future payments or advances under these agreements as of March 31, 2016:

| (in thousands) | Total | < 1 year | 1-3 years | 3-5 years | > 5 years |
|-------------------------------|----------|----------|-----------|-----------|-----------|
| Operating lease payments | \$ 2,649 | \$ 815 | \$ 1,834 | \$ | \$ |
| Minimum distribution payments | 2,706 | 2,194 | 512 | | |
| Total contractual obligations | \$ 5,355 | \$ 3,009 | \$ 2,346 | \$ | \$ |

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, 2015. 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, but do hold forward and option contracts in foreign currencies. See Note 5 to the accompanying financial statements. 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 March 31, 2016.

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

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in

Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act. Based upon its evaluation as of March 31, 2016, 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 March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

From time to time, we are involved in legal proceedings that we consider to be in the normal course of business. 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 March 31, 2016 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.

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. |
| 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) |
| May 10, 2016 Date | By: /s/ Lynn Powers Lynn Powers Chief Executive Officer (authorized officer) |
| May 10, 2016 Date | By: /s/ Stephen J. Thomas Stephen J. Thomas Chief Financial Officer (principal financial and accounting officer) |

Table of Contents**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