

GAIAM INC  
Form ARS  
April 24, 2008

2007

**G A I A M**

®

*a lifestyle media company*

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## LIFESTYLE MEDIA

Lifestyle media describes how our vision intersects our core media business. Our programs empower people to make the lifestyle choices we stand for choices that improve the well-being of people and the planet. Through our DVDs, streaming online video, inspirational films and other media content, we have established Gaiam as the leading media brand in the \$200 billion Lifestyles of Health and Sustainability (LOHAS) market. From our fitness/wellness instruction programs, DVDs, audio CDs and books to our meaningful film, education and entertainment DVDs, Gaiam Lifestyle Media resonates with consumers because it speaks to a deep longing for life experiences that are more meaningful, more fulfilling and more connected with the natural world and our global community.

In 2007, we solidified our positioning as a premier global lifestyle media source in several ways:

**GREW OUR MARKET SHARE** in fitness/wellness DVDs in the U.S. to 50%.

**EXPANDED OUR CONTENT LIBRARY** to more than 2,500 titles and enhanced our depth of offerings in categories including mass market fitness, inspirational media, personal development, family entertainment and children's edutainment.

**ACQUIRED MEDIA CONTENT** and licensing rights that broaden our appeal and further expand our media offerings beyond the wellness category, while remaining true to our core values and our mission.

**FORGED STRATEGIC ALIGNMENTS** with key media organizations and channels from broadcast, film and DVD to some of today's most exciting emerging media channels including Comcast, Yahoo and Google.

**ENRICHED OUR VERTICALLY INTEGRATED PRODUCTION** and post-production media capabilities with additional leading-edge technologies, facilities and expertise.

LOHAS values and issues are featured more and more frequently in mass media.







## BUSINESS MODEL

Original media content is at the center of our business model. Our content drives demand for our proprietary products and services by engaging people in our brand and the lifestyle values we promote. We believe the originality of our content and the authenticity of our information give us a significant competitive advantage in our target markets. By utilizing a multichannel approach, we are able to reach consumers however they choose to view content or shop for media and products. This multichannel approach also allows us to leverage our production expenses across all channels of distribution.

**CONTENT.** We develop and produce original, branded media programming that informs, entertains, instructs, inspires and engages people in facets of the LOHAS lifestyle. These commitments drive the authenticity that builds customer relationships and communities based on trust and confidence in our brand. Our content-centric strategy gives us a significant competitive advantage. Through our content, we have successfully built significant customer loyalty and continuity that drive incremental revenue, customer lifetime value and brand preference. During 2007, we partnered with Mayo Clinic to produce 10 condition specific DVDs on wellness, furthering our authenticity in the category. These DVDs will be the basis for a full launch of store-within-store wellness displays in 2008.

**OFFERINGS.** We support our content with products and services relevant to LOHAS, presenting a consistent branded vision in all Gaiam offerings. In addition to our media offerings, our products include mind-body fitness and wellness solutions, organic cotton apparel and home textiles, and renewable energy solutions.

**CHANNELS.** Our business model enables us to connect with our customers when and where they have a contextual need and desire for our offerings. We bring our media and products to our customers through an integrated multichannel system of 1) media channels including broadcast and direct response television; 2) approximately 70,000 retail doors in the U.S. including Target, Whole Foods Market, Barnes & Noble and Best Buy that offer Gaiam media titles; 3) store-within-store presentations that engage people in the Gaiam lifestyle experience in over 7,000 retail doors in the U.S.; 4) 19 million catalogs and the Internet; 5) subscription and continuity clubs and other community-building programs; and 6) lifestyle services and corporate accounts.

## CONTENT

**AUTHENTICITY.** Creating our own content is one of the most important ways we build confidence in our brand, a significant competitive advantage in our key markets. We work together with top professionals and experts to create programs that have earned us a reputation for the highest quality. Our experts have been featured by leading media including *The Oprah Winfrey Show*, *Time* and *People* magazines, *Entertainment Tonight*, and *USA Today*. During 2007 we expanded our content categories into wellness through a partnership with Mayo Clinic; and into personal development, producing content in conjunction with Deepak Chopra and PBS.

**CAPABILITIES.** Our in-house team of media experts creates our proprietary content, from conceiving new programs and leading field production to post-production in our leading-edge facilities. Our media development assets include high-definition technology; a new state-of-the-art high-definition editing suite; 5.1 surround sound audio production suite; complete filming, editorial and graphics studios; in-house finishing, color correction and up-rezing technology; digital asset management; and Web-based media systems including RSS feed production capabilities. We also license media content that reflects our core commitments, and we maintain careful creative control over our content via our vertically integrated content production teams. Our in-house capabilities allow us to produce cost-effective programming and have it available for webcasting in a matter of hours.

**AWARDS.** Gaiam programs earn national and international honors every year for production quality and creative content. We have received more than 160 awards including Tellys, Aegis Awards and New York International Film Festival medals. We have also earned *Parenting* magazine and Parents' Choice Awards for our children's media content.

Actress and filmmaker Mariel Hemingway, co-host for our Spiritual Cinema Circle film club,  
on the set in our studio with SCC's co-founder and co-host, film producer Stephen Simon.





## OFFERINGS

Our offerings help people live healthier, happier, and lighter on the planet. Gaiam-branded media and products empower people to improve their fitness and wellness, explore their spirituality, expand their minds, and minimize their impact on the environment. Our offerings build our brand recognition as the trusted, unifying symbol for consumers who value these pursuits.

**MEDIA DEVELOPMENT.** Our media programming is the most important and powerful way we engage people in our brand, the lifestyle choices we promote, and our global community. Our media ranges from fitness and wellness DVDs to inspirational films, eco-living programs and children's edutainment. In 2007 we continued to increase our emphasis on media, creating more than 100 new DVDs and adding 150 titles to our DVD library through acquisitions and remakes, as well as new streaming-video segments for our websites. We expanded our DVD distribution into thousands of new retail locations, and we forged new partnerships to distribute our content via digital media channels. After acquiring the balance of Newmark Media in late 2006, we grew our media racking division by offering complete racking services for fitness and wellness. Our media content is an integral part of our product offerings and carries higher margins; we continue to grow overall margins by shifting more of our focus to media.

**PRODUCT DEVELOPMENT AND STANDARDS.** Our branded lifestyle products augment our media by enabling and supporting a healthier, greener and more fulfilling lifestyle. From our wellness solutions and mind-body fitness tools to our eco-friendly apparel and home furnishings, all of our proprietary products are competitively priced yet also carry higher margins and promote the Gaiam brand. In 2007, our proprietary products grew to 75% of our business. We believe a core commitment to responsible business practices increasingly determines the brands that build affinity among 21st-century consumers. Our One World by Gaiam fair trade initiative is empowering people in developing countries to earn livable wages and overcome the cycle of poverty; our Minimum Social Accountability standards set forth our expectation that our suppliers uphold responsible standards to help end unfair and inhumane labor practices; and our organic cotton meets standards set by top-recognized, internationally accredited organizations including SKAL and IMO. Our best customers tell us consistently that these factors engender their continuing relationships with us.

### **PROPRIETARY PRODUCT PERCENT OF BUSINESS**

**DISTRIBUTION CHANNELS: MEDIA**

Our media offerings introduce new customers to us and help maintain Gaiam's authority in the LOHAS market. In 2007 we produced more than 100 new DVDs and grew our media library to more than 2,500 titles including our new wellness media series created with Mayo Clinic, as well as DVD and audio programs with Deepak Chopra and PBS. Our new releases expand our range of programming that also includes fitness, wellness, green living, personal growth, family entertainment, children's edutainment, and inspirational films. In 2007, based on Nielsen VideoScan rankings, we continued to grow our media market share.

**FITNESS AND WELLNESS.** We grew our share of the market for the third year and maintained our #1 ranking. We increased our market share from 45% to 50%, more than four times greater than our nearest competitor. Our top fitness media title has sold more than 3 million units. Sales in this category are continually led by our award-winning programs in yoga, Pilates, fitness walking, dance workouts, cross-training, cardio, Tae Bo® and more. In 2008 we intend to take on the role of category manager for fitness, bringing competitive product into our mix. While this may temporarily lower our market share, it will add to revenue and profits and maintain our category leadership.

**NON-THEATRICAL.** We rank ahead of Universal, 20<sup>th</sup> Century Fox and Sony. We are committed to building our market share in non-theatrical films by expanding our line of children's edutainment, inspirational family films and docudramas rounding out our assortment of conscious media. We believe our market share is higher than these rankings indicate. Industry reports are limited by the reach of specialized third-party scanning technology not yet utilized by many unique, niche retail chains through which we distribute DVDs.

We also continued to distribute our media via streaming video on Brightcove and our websites; by download to own or rent via Google Video; on-demand via Comcast; in-room through hotel/resort video network LodgeNet; and on DVD by mail via our inspirational-film subscription club Spiritual Cinema Circle.

**U.S. DVD MARKET SHARE**  
*(FITNESS/WELLNESS) NIELSEN REPORT*







**DISTRIBUTION CHANNELS: RETAIL**

Our retail business drives exceptional exposure of our proprietary products, building awareness of the Gaiam brand as a unifying symbol of healthier, more conscious lifestyle choices. Growth in our retail channel continues at a robust pace; in 2007 we expanded our retail presence into approximately 70,000 stores in the U.S.

Our expanded brand assortment, including Gaiam, Tae Bo® and The FIRM® fitness brands, allows us to reach all classes of trade and strategically differentiate our offerings in various retailers. Our mass-market brand The FIRM was placed in more than 1,500 retail locations by year-end 2007.

We continued our emphasis on category management to strategically and efficiently merchandise retail shelf space in the grocery and drugstore channel based on individual retailers' needs and goals. The growing sales volume of our media is also allowing us to serve large retailers directly at better margins than we realized previously via third-party distribution.

In 2007 we continued leveraging our leadership in the growing wellness market via Zen Zone wellness shopping environments positioned in pharmacy areas in Safeway stores, and in health-conscious retailers such as Jenny Craig and Pharmaca. Our branded media products are also sold in major retailers including Best Buy, Blockbuster, Barnes & Noble, Borders, Whole Foods Market, REI, ABC Carpet & Home, Target and Wal-Mart. We also expanded our retail presence across clicks-and-mortar channels deepening our merchandise array and extending our branded environments at e-tailers including Amazon.com and BarnesandNoble.com.

We continue to place strong emphasis on our branded store-within-store (SWIS) presentations now in more than 7,000 retail doors and all our retail channels to build our brand and customer loyalty. Our SWIS presentations include our branded, custom-designed fixtures that best showcase our products.

**RETAIL STORE PENETRATION**

**STORE-WITHIN-STORE PENETRATION**

DISTRIBUTION CHANNELS: INTERNATIONAL

In 2007 we continued to replicate our domestic success by expanding our presence in more international markets. Gaiam-branded products are now sold in Canada, the United Kingdom, Europe, Asia and Australia through licensing agreements, strategic joint ventures, distributor arrangements, and acquisitions in key territories. Among our significant 2007 milestones in International:

Expanded the reach of our retail distribution network, partnering with select retailers in international markets and growing our international distribution to more than 5,000 retail locations. Our international partners help us present a consistent brand identity while appealing to the unique lifestyles and cultures in each country and market.

Built brand awareness via our direct response television (DRTV) programs that feature our branded media content, including our top-selling Tae Bo® brand. In 2007 our Billy Blanks BootCamp DRTV program was very successful in Japan.

Grew our Gaiam branded store-within-store displays in Australia and expanded our total retail presence in Australia to over 200 stores, including BIG W department stores and Rebel Sport, Australia's leading sporting goods retailer.

Leveraged our proven content-centric business model emphasizing our media as it builds a connection with our brand, drives demand for our other product offerings, and carries higher margins.

Selectively translated our media titles and kit packaging into Spanish, French, Dutch, Italian and Japanese, and distributed some of our best-selling media titles and kits in dual-language packaging.

Began shifting our model toward licensing. We intend to continue to seek new licensees for our brand internationally and to move all of our current distribution agreements to licensing agreements. While licensing the rights to manufacture and distribute some of our media lowers recognized revenue, it improves contribution margins and branding.

Three of more than a dozen awards Gaiam earned in 2007, recognizing our brand's innovation and impact in the Japanese market. Our media programs and membership communities have been key drivers of Japan's growing trend toward fitness and wellness lifestyle choices.





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### DISTRIBUTION CHANNELS: DRTV

Our direct response television programs introduce our exclusive media content and proprietary brands to millions of viewers on channels including Lifetime, CNBC and Discovery Channel; as well as on QVC using its unique and highly successful format.

A cost-effective customer acquisition channel, DRTV grows our direct customer file and drives branding and retail sales. DRTV also seeds some of our membership programs, strengthens relationships with our brand and builds customer lifetime value. Our DRTV team has been successful at engaging buyers in relationships that extend beyond one-time transactions. A customer responding to one of our fitness-based DRTV programs, for example, may be invited to receive additional workout DVDs every month to add variety and motivation to their fitness routine.

In 2007 we built on the longtime success of our brand The FIRM,<sup>®</sup> launching successful new DRTV programs that feature our media content and get new customers started with The FIRM's proven formula for lifetime fitness and weight management. Products include a membership in The FIRM Believers Club, one of our members-only online communities. Members gain access to a host of tools and support that are proven to improve weight loss success including blogs and Q&As with our FIRM Master Instructors, healthy recipes, how-to articles and tips, and online conversations with fellow members.

Our multichannel strategy earned Gaiam the 2007  
Multichannel Marketer of the Year award from Electronic Retailer.

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### DISTRIBUTION CHANNELS: INTERNET & CATALOG

In 2007 we focused on building long-term customer relationships and brand loyalty in our direct-to-customer channels.

**E-COMMERCE.** In late 2007 we relaunched Gaiam.com on a new best-in-class e-commerce platform that realizes years of enhancements to the customer shopping experience. Offering nearly 10,000 SKUs, the new site also introduced our One World by Gaiam Fair Trade Marketplace, featuring products that support better quality of life for artisans and communities around the world. We forged partnerships with key players in the LOHAS space as part of leveraging our new e-commerce system. We also began highlighting our original educational content in our e-commerce site a strategy aimed at continuing to build customer confidence in Gaiam as the authoritative LOHAS brand and the go-to resource for solutions, not just products. We expect these accomplishments to support continued gains in organic search traffic, conversion, customer retention and incremental sales.

**CATALOGS.** Our catalogs target key segments of the LOHAS market with products that help people make green, healthy and fulfilling lifestyle choices. In 2007 we refined our circulation targeting and significantly reduced our virgin-fiber and overall paper usage while still reaching best-performing segments with 19 million catalogs. We also continued to increase our ratio of proprietary product offerings and to leverage our catalogs to drive customers to our expanded e-commerce selections.

**CUSTOMER DATABASE.** In 2007 we grew our direct buyer database to 8 million people. This robust house file makes our direct business a cost-effective testing ground, helping us pinpoint products that will resonate in our retail channel. We also test ideas among our Gaiam Customer Panel, which has grown to more than 10,000 members and generates survey response rates as high as 50% within a few hours of deployment.

Gaiam.com lets customers conveniently shop 10,000 SKUs.







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### DISTRIBUTION CHANNELS: COMMUNITY

In 2007 we created Gaia Community, connecting like-minded people who have a passion for the LOHAS lifestyle. We launched a beta of Gaia Community website (Gaia.com) and acquired three online communities: Zadz, the leading social networking site in the LOHAS space; Lime, a green/healthy lifestyle media company; and a majority ownership in Conscious Enlightenment, an online and offline community with a socially conscious credit card.

Gaia.com is a vibrant hub where members engage in discussions, ideas, advice, experiences and shared interests around topics including personal growth, holistic well-being and environmentally responsible choices. Members share a sense of belonging and their desire to live with more meaningful purpose and to make a world a better place.

The social networking aspect of community allows dialogue and content to be driven primarily by the community members themselves. Gaia Community creates a unifying space that engages a broader range of LOHAS topics at a highly personal level.

In 2008 we plan to continue developing features and tools that enrich the member experience and connect our members with expertise, services, events and networking tailored to their shared values and interests.

Gaia Community also includes informational articles and streaming video on topics that inspire our members to connect with each other and with brands that share their values.

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### DISTRIBUTION CHANNELS: MEMBERSHIPS

Our membership clubs turn one-time transactions into lasting relationships with customers. They deliver exclusive content, expertise and benefits that are highly targeted to member interests; and connect subscribers with others who share those interests. These programs produce competitive margins by leveraging our extensive content library, media production capabilities, 8 million direct customers, experts lineup, and brand equity to build customer lifetime value.

In 2007 we continued extending the scope of our paid membership communities across the Gaiam lifestyle spectrum. We created a dedicated Subscription Services group; invested in infrastructure and new technology to support a robust range of Web 2.0 services, subscriber tools, and social networking features; and began work on several additional paid membership programs including Illumination University and the Gaiam Yoga Club with Rodney Yee.

Our fitness clubs and inspirational film communities continue as strong performers in our portfolio of subscription services. We strengthened our leadership in the inspirational films genre by signing Mariel Hemingway as co-host of our Spiritual Cinema Circle film club along with film producer Stephen Simon; integrated SCC subscription and fulfillment processes into our operations; and launched Earth Cinema Circle with Ed Begley, Jr., as host. In 2008 we plan to further refine the membership experience, produce targeted new media content and products, and introduce new subscriber tools designed to grow member retention and incremental revenue.

Our Billy Blanks Club online membership community features streaming video,  
Billy's blog and more to help members achieve mind-body well-being.





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### DISTRIBUTION CHANNELS: LIFESTYLE SERVICES/SOLAR

As demand for power grows, global warming concerns intensify, and tax incentives for buying green power expand, the global solar energy market is expected to grow to between \$19 billion and \$32 billion by 2011. Our wholly owned subsidiary, Real Goods, is a leading provider of solutions to these challenges.

Real Goods offers turnkey solar electric system design and integration services for homes and businesses. With our acquisition of two competitors in late 2007 and early 2008, Real Goods is now one of the top two solar electric system integrators in California, which comprises approximately two-thirds of the total U.S. market for grid-connected solar energy systems.

Real Goods' 30 years of experience in residential solar energy began when the company sold one of the first solar photovoltaic, or PV, panels in the United States. We believe that we have integrated more residential solar energy systems in the U.S. than any other company, including more than 2,400 residential and small commercial solar energy systems in California and Colorado, as well as sold solar power components and products to more than 30,000 customers. Our commercial clients have included The White House, NASA, the U.S. Department of Energy, the government of Brazil. Real Goods also consults on renewable energy solutions, including wind and hydroelectric power systems.

In 2007, Real Goods Founder and President John Schaeffer was honored with the prestigious Green Power Pioneer Award, part of the Green Power Leadership Awards sponsored by the EPA and the U.S. Department of Energy.

Real Goods generates leads for its solar business and provides renewable energy and green living products through our Gaiam Real Goods consumer catalog.

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### DISTRIBUTION CHANNELS: LIFESTYLE SERVICES/CORPORATE ACCOUNTS

**ECO-TRAVEL EXPERIENCES.** Through our majority ownership interest in Natural Habitat Adventures, we provide individual and group eco-travel services, allowing people to experience first-hand our planet's wildlife, wild places and natural wonders and imparting an understanding of the critical work needed to preserve them. Popular trips include Tundra Buggy excursions that educate travelers about polar bears and their melting habitats.

Natural Habitat Adventures is now the World Wildlife Fund's designated Conservation Travel Provider. All of our travelers are made WWF members, and our guides and travelers are educated about WWF's conservation projects and initiatives around the world. Natural Habitat also offers clients the opportunity to offset the carbon-emissions impact of their travel.

**HOSPITALITY INDUSTRY SERVICES.** We have also forged partnerships with hospitality leaders who share our core values, including guest-wellness experiences exclusively featuring our instructional programs in yoga, meditation, tai chi and more. Our instructional programs are currently offered in Kimpton hotel rooms and Hilton Garden Inn properties, as well as via the LodgeNet hospitality industry in-room video-on-demand network.

**FITNESS/WELLNESS SERVICES.** Jenny Craig centers feature custom co-branded Gaiam fixtures at several hundred locations across the U.S., showcasing our media programs and fitness/weight loss solutions.







CORPORATE RESPONSIBILITY

GLOBAL COMMUNITY. In late 2007 we launched our One World by Gaiam Fair Trade Marketplace, supporting 30 organizations that are creating a way out of the cycle of poverty. Our fair trade initiative supports livable wages, vocational training, schools for children and more, rewriting life stories for families and communities in 20 countries around the globe, from Thailand to Ethiopia, Nicaragua to Tibet.

We took our successful Thoughtful Tees program to the next level in 2007, adding more 100% organic cotton message tees and donating proceeds to carefully selected nonprofits supporting important social causes including Action Against Hunger, Doctors Without Borders, Heifer International,<sup>®</sup> and Rebuilding Together<sup>®</sup>. We also donated to more than 300 other causes and organizations during 2007, from Donna Karan's groundbreaking Urban Zen integrative wellness initiative to school programs in Nepal to the Solar Living Institute's Earth Day for Kids field trip for inner-city school kids.

ENVIRONMENT. In 2007 we introduced advanced new eco-packaging in select new Gaiam DVD titles converting approximately 200,000 units from traditional DVD cases to packages made with 100% post-consumer recycled paper and 100% recyclable materials. In 2008 we plan to expand this test into additional titles. We are committed to leading the media industry toward a new packaging standard that substantially reduces the use of virgin and non-recyclable materials. We also increased the post-consumer waste content of our recycled catalog paper to 30% PCW and maintained our elite Forest Stewardship Council certification. Our use of non-virgin fibers has saved nearly 60,000 trees and 11 million pounds of greenhouse gases.

Through our pioneering Go Zero<sup>SM</sup> carbon-offset program created with The Conservation Fund, Gaiam and our customers have prevented the emission of nearly 150,000 pounds of greenhouse gasses by funding the planting of nearly 100,000 trees in deforested areas and wildlife preserves across the country. Our employees also kept more than 7,000 pounds of refuse out of landfills and prevented the release of 300 cubic feet of methane gas and 2,000 pounds of air pollutants into the atmosphere during 2007 by composting and recycling through our Zero Waste program at our Colorado headquarters.

Our one-of-a-kind Solar Living Center in Hopland, Calif.



**GAIAM, INC.**

**ANNUAL REPORT TO SHAREHOLDERS**

**For The Fiscal Year Ended December 31, 2007**

**Business and Financial Overview**

<b>Index</b>	<b>Page</b>
<u>Business</u>	36
<u>Market for registrant's common equity and related stockholder matters</u>	36
<u>Selected financial data</u>	37
<u>Management's discussion and analysis of financial condition and results of operations</u>	38
<u>Quantitative and qualitative disclosures about market risk</u>	45
<u>Financial statements and supplementary data</u>	47
<u>Changes in and disagreements with accountants on accounting and financial disclosures</u>	69
<u>Directors and executive officers</u>	70
CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995	

This report contains forward-looking statements that involve risks and uncertainties. When used in this discussion, we intend the words "anticipate," "believe," "plan," "estimate," "expect," "strive," "future," "intend" and similar expressions as they relate to us to identify such forward-looking statements. 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," "Market Risk" and elsewhere in this report. Risks and uncertainties that could cause actual results to differ include, without limitation, general economic conditions, competition, loss of key personnel, pricing, brand reputation, acquisitions, new initiatives we undertake, security and information systems, legal liability for website content, merchandise supply problems, failure of third parties to provide adequate service, reliance on centralized customer service, overstocks and merchandise returns, our reliance on a centralized fulfillment center, increases in postage and shipping costs, E-commerce trends, future Internet related taxes, our founder's control of us, fluctuations in quarterly operating results, consumer trends, customer interest in our products, the effect of government regulation and programs and other risks and uncertainties included in our filings with the Securities and Exchange Commission. We caution you that no forward-looking statement is a guarantee of future performance, and you should not place undue reliance on these forward-looking statements which reflect our views only as of the date of this report. We undertake no obligation to update any forward-looking information.

## Business

### Our Business

We are a lifestyle media company providing a broad selection of information, media, products and services to customers who value personal development, wellness, ecological lifestyles, responsible media and conscious community. We offer our customers the ability to make purchasing decisions and find responsible content based on these values while providing quality offerings at a price comparable to mainstream alternatives. We market our content, media and products through a multi-channel approach including traditional media channels, direct to consumers via catalogs, the Internet, direct response television, broadband, subscriptions and communities. At the end of 2007, our home media was carried by approximately 70,000 retail stores in the United States alone, and we had approximately 8 million direct customers.

We have established ourselves as a lifestyle media brand, content producer and licensor, information resource and authority in the Lifestyles of Health and Sustainability ( LOHAS ) market including the emerging Conscious Media market. We seek to become a unifying symbol of these emerging media and lifestyle genres. Our lifestyle brand is built around our ability to develop and offer media content, products, lifestyle solutions and community to consumers in the LOHAS and Conscious Media markets. Our content forms 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. We market our products and services across two segments, business and direct-to-consumer. We distribute our products in each of these sales segments from a single fulfillment center.

### Our Business Segments

We separate our business into two business 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, E-commerce, and subscription community services.

In our business segment, we continue to expand our presence in national retailers and currently have placements in approximately 70,000 retail points in the United States, up from 68,000 at the end of 2006 and 50,000 at the end of 2005. We also continue to expand our store-within-store concept in a variety of stores, including Whole Foods Market, Barnes & Noble Bookstores, Borders, Target, Ulta, Dick's Sporting Goods, REI, ABC Carpet and Home and other national retailers. We currently have over 7,000 store within store concepts under the Gaiam and The Firm brands.

In our direct to consumer business we are open 24 hours a day, offering approximately 10,000 stock keeping units on our Internet site. As we increase the depth of media and community 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.

The business segment represented 42.4% of 2007 net revenues, while the direct to consumer segment represented 57.6% of net revenues. Our business segment is dependent upon a few major customers for a significant portion of its revenues. See Note 12 to our consolidated financial statements for further information on our segments.

## Market for registrant's common equity and related stockholder matters

### Stock Price History

Our Class A common stock is listed on the NASDAQ Global Market under the symbol GAIA. On March 13, 2008, we had 7,872 shareholders of record and 19,735,074 shares of \$.0001 par value Class A common stock outstanding. We have 5,400,000 shares of \$.0001 par value Class B common stock outstanding, held by one shareholder.

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

	High Bid	Low Bid	Close	Average Daily Volume
Fiscal 2007:				
Fourth Quarter	\$ 30.73	\$ 19.50	\$ 29.68	227,383
Third Quarter	\$ 24.14	\$ 14.67	\$ 24.03	213,300
Second Quarter	\$ 18.50	\$ 14.15	\$ 18.23	200,805
First Quarter	\$ 15.85	\$ 11.65	\$ 15.74	195,993
Fiscal 2006:				
Fourth Quarter	\$ 15.20	\$ 11.98	\$ 13.68	144,163
Third Quarter	\$ 14.50	\$ 9.80	\$ 12.91	168,695
Second Quarter	\$ 19.98	\$ 13.88	\$ 14.02	140,701
First Quarter	\$ 16.49	\$ 12.18	\$ 16.11	59,677

### Dividend Policy

We have never declared or paid any cash dividends on our capital stock. Our bank line of credit agreement permits, upon advance notification and maintaining of certain financial ratios, payment of dividends to our shareholders.

### Selected financial data

We derived the selected consolidated statement of operations data for the years ended December 31, 2007, 2006 and 2005 and consolidated balance sheet data as of December 31, 2007 and 2006 set forth below from our audited consolidated financial statements which are included elsewhere in this Annual Report to Shareholders. We derived the selected consolidated statement of operations data for the years ended December 31, 2004 and 2003 and consolidated balance sheet data as of December 31, 2005, 2004 and 2003 set forth below from our audited consolidated financial statements which are not included in this Annual Report to Shareholders. The historical operating results are not necessarily indicative of the results to be expected for any other period. You should read the data set forth below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, included elsewhere in this Annual Report to Shareholders.

<i>(in thousands, except per share data)</i>	Years ended December 31,				
	2007	2006	2005	2004	2003
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$ 262,943	\$ 219,480	\$ 142,492	\$ 96,657	\$ 102,000
Cost of goods sold	94,565	79,150	61,977	48,646	48,927
Gross profit	168,378	140,330	80,515	48,011	53,073
Expenses:					
Selling and operating	141,749	119,700	67,639	46,060	45,184
Corporate, general and administration	16,176	14,989	9,790	8,241	9,171
Total expenses	157,925	134,689	77,429	54,301	54,355
Income from operations	10,453	5,641	3,086	(6,290)	(1,282)
Other income (expense)	256	645	(533)	(51)	472

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Interest income	3,892	3,260	358	160	74
Other income (loss)	4,148	3,905	(175)	109	546
Income (loss) before income taxes and minority interest	14,601	9,546	2,911	(6,181)	(736)
Income tax expense (benefit)	5,767	3,774	974	(2,440)	(461)
Minority interest in net income of consolidated subsidiary, net of tax	(310)	(128)	(601)	(897)	(697)
Net income (loss)	\$ 8,524	\$ 5,644	\$ 1,336	\$ (4,638)	\$ (972)
Net income (loss) per share:					
Basic	\$ 0.34	\$ 0.23	\$ 0.08	\$ (0.32)	\$ (0.07)
Diluted	\$ 0.34	\$ 0.23	\$ 0.08	\$ (0.32)	\$ (0.07)
Shares outstanding:					
Basic	24,962	24,349	17,140	14,684	14,594
Diluted	25,214	24,617	17,354	14,684	14,594

As of December 31,

(in thousands)

**Consolidated Balance Sheet Data:**

	2007	2006	2005	2004	2003
Cash	\$ 66,258	\$ 104,876	\$ 15,028	\$ 10,439	\$ 8,384
Working capital	106,815	140,147	37,216	31,488	29,531
Total assets					