

GAIAM, INC  
Form 10-K  
March 11, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2010**

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 0-27517**

**GAIAM, INC.**

(Exact name of registrant as specified in its charter)

**COLORADO** **84-1113527**  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
**833 WEST SOUTH BOULDER ROAD**

**LOUISVILLE, CO 80027**

(Address of principal executive offices)

**(303) 222-3600**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

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Title of Each Class	Name of Each Exchange on Which Registered
<b>Class A Common Stock, \$.0001 par value</b>	<b>NASDAQ Stock Market LLC</b>
Securities registered pursuant to section 12(g) of the Act: <b>None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.) YES ☐ NO ☒

The aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately \$99,260,422 as of June 30, 2010, based upon the closing price on the NASDAQ Global Market on that date. The registrant does not have non-voting common equity.

As of March 7, 2011, 17,899,121 shares of the registrant's Class A common stock and 5,400,000 shares of the registrant's Class B common stock were outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or portions thereof) are incorporated by reference into the Parts of this Form 10-K noted:

Part III incorporates by reference from the definitive proxy statement for the registrant's 2011 Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form.

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**GAIAM, INC.**

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2010

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### **PART I**

#### **Item 1. 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, and responsible media. 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 digital media channels, direct to consumers via catalogs, the Internet, direct response television, broadband, subscriptions and communities as well as traditional retail stores. At the end of 2010, not counting digital channels, our products were carried by approximately 65,000 retail stores in the United States alone, and we had over 10 million direct customers.

We have established ourselves as a lifestyle multiplatform 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, and to increasingly aware mainstream audiences. 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 three segments: business, direct-to-consumer, and solar. We distribute the majority of our products in our business and direct to consumer segments from our fulfillment center. We also utilize a third party replication and fulfillment center for some of our media distribution in our business segment.

##### **The LOHAS Market**

The LOHAS market consists of five main sectors:

***Healthy Living.*** Natural and organic foods, dietary supplements, personal care products and related information and services.

***Integrative Healthcare.*** Health and wellness solutions and alternative health practices that compliment traditional approaches.

***Personal Development.*** Solutions, information, products and experiences relating to mind, body and spiritual development.

***Ecological Lifestyles.*** Environmentally friendly cleaning and household products, organic cotton clothing and bedding, and eco-tourism.

***Sustainable Economy.*** Renewable energy, energy conservation, recycled goods, environmental management services, sustainable manufacturing processes and related information and services.

We participate in all five sectors of the LOHAS market, which we believe generates over \$200 billion in annual sales. Our emphasis is on Personal Development, Ecological Lifestyles and Integrative Healthcare.

##### **The Conscious Media Market**

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

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

***Family Entertainment.*** Entertainment that can be enjoyed by the entire family, containing no violence or profanity.

***Documentaries.*** Educational and informational programming (edutainment).

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

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

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### **Our Content**

Our business model revolves around content creation, which forms the basis for our proprietary products. We have an in house production studio and team which produces programming that has won 100 Telly awards and several medals at the International New York Film Festival. We are fully high definition and 5.1 surround sound capable and do the majority of our authoring and editing in house at our Colorado facility ensuring the quality standards that drive our awards. We also develop children's programming, which has been the recipient of several Parent's Choice and Kids First Awards recognizing new products that help children grow imaginatively, physically, and mentally. During 2010, we added 250 titles to our DVD library increasing our library to over 3,100 titles. We also develop and market music and audio CDs and publish printed content. Our content management systems allow us to port content to multiple relevant devices and platforms, allowing us to reach growing audiences anytime, anywhere. We own all rights to the majority of our titles allowing us to continue to expand our reach as content moves into the digital age.

### **Our Products**

Our visual media programs represent an integral part of our proprietary product offering. In 2010, excluding the solar segment, our proprietary products constituted over 86% of our product sales.

### **Our Sales Channels**

We conduct our business across three segments. Our business segment customers are primarily national retailers, corporate accounts and the media. We conduct our direct to consumer business through our direct response marketing programs, catalogs, Internet and subscription community sales channels. We design and install solar energy systems and related renewable energy products and sustainable living resources through our solar segment.

### ***Media***

We develop, produce and license information and programming targeted to consumers who value personal development, wellness, spirituality, and inspirational entertainment. We have an award-winning library of titles that we sell to retailers, license to selected distributors operating outside of the United States, and license or sublicense for broadcast and download. We are developing our own channel, and strategically partnering with other media companies, to distribute our digital media content over the Internet. Some of our media partners include Google, YouTube, Amazon, iTunes and Netflix. All of our licensing arrangements require our branding to be prominent on the programming and are subject to royalty agreements with our performing artists. While our licensing of the rights to manufacture and distribute certain of our media lowers recognized revenue, we improve contribution margins and branding through this licensing. We intend to continue to seek new licensees for our brand internationally.

### ***DRTV***

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

### ***Retailers***

Since the inception of our retailer channel in 1998, we have increased our breadth and diversity. As of the end of 2010, our media titles could be found in approximately 65,000 stores in the United States. We currently sell our media and other products across a variety of leading retailers, including bookstores such as Barnes & Noble; media stores such as Best Buy; beauty stores such as Ulta; home furnishing stores such as Bed, Bath and Beyond, ABC Carpet and Home, and Kohl's; natural food stores such as Whole Foods Market; sporting goods stores such as Dick's and REI; mass merchants such as Target, our largest customer, and WalMart; e-tailers such as Amazon.com and Drugstore.com; and wholesale clubs such as Costco and Sam's Club. Many of these retailers display our products in branded store within store lifestyle presentations that may include custom fixtures that we design. We implemented our first store within store concept late in 2000 and the concept has grown, partially driven by new store within stores at Best Buy, to over 14,700 stores by the end of 2010, up from 11,000 stores at the end of 2009 and 10,000 at the end of 2008. In 2008 we expanded our market reach to the professional health and fitness industry by purchasing SPRI Products, Inc.

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

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### ***Services***

We conduct operations as a solar energy integrator through our majority owned subsidiary Real Goods Solar, Inc., offering turnkey services including the design, procurement, installation, grid connection, monitoring, maintenance and referrals for third-party financing of solar energy systems. We also sell renewable energy products and sustainable living resources through Real Goods' nationally distributed catalog and website. During 2008, Real Goods consummated its initial public offering of its Class A common shares and completed acquisitions targeted towards expanding and enhancing its solar market. These acquisitions were Carlson Solar, Inc., Independent Energy Systems, Inc., and Regrid Power, Inc., solar energy integrators, located in both southern and northern California.

### ***Catalogs***

We offer a variety of LOHAS products directly to the consumer through our catalogs and through some consumer lifestyle publications. During 2010, we strategically reduced our catalog circulation by an additional 20%. Our customer demographics are highly regarded with our customers having an average income over \$92,000 and over 65% of them being college educated.

### ***Internet***

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

### ***Subscription Services***

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

### ***Our Operations***

#### ***Sales Channels, Product Development and Sourcing***

We sell our branded products across various sales channels. Non-proprietary products are only available through our catalogs and over the Internet. We use our catalog and Internet channels to test products before we develop products under our brand and distribute them through our other sales channels. Because we use a multi-channel approach to our business we are able to leverage our media and product development costs across all channels of our business.

Our proprietary offerings are designed by our development team and sourced both domestically and internationally by our merchandisers through third party suppliers that produce these products to our specifications. We design our products to supply information, enhance customers lifestyles and experiences and provide healthy, natural solutions while being eco-friendly and promoting a sustainable economy. We also screen the environmental and social responsibility of our suppliers. In order to minimize risk we often identify an alternate supplier for our products in a separate location.

### ***Customer Service***

We focus on building and maintaining customer relationships that thrive on loyalty and trust. We maintain a no-risk guarantee policy, whereby we provide a customer a full refund for our products that are returned at any time, for any reason. We have established a most valued customer program, which extends added benefits to our most loyal catalog and Internet customers. Our in-house customer service department includes product specialists who have specific product knowledge and assist customers in selecting products and solutions that meet their needs. We employ telephone routing software that directs each call to the appropriate representative. Our policy is to ship orders no later than the next business day, which we accomplish by stocking inventory that supports over 85% of our orders. We believe that by offering exceptional customer service we encourage repeat purchases by our customers, enhance our brand identity and reputation and build stronger relationships with our customers.





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### ***Established Infrastructure***

During 2010 we optimized and consolidated our distribution center near Cincinnati, Ohio, into one building, thereby realizing significant cost savings. This distribution center provides fulfillment for the majority of our current domestic business needs and has the capacity to support the growth of our business. This central U.S. location allows us to achieve shipping cost efficiencies to most locations. The center is also located within 30 minutes of several major shipping company hubs. We use a supply chain management system that supports our entire operation, including fulfillment, inventory management, and customer service. Our fulfillment center is connected to our other facilities by a state-of-the-art voice-over-Internet telecom network that allows us to maintain a high degree of connectivity within our organization.

### **Our Growth Strategies**

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

Proprietary and authentic content lies at the core of our business model. Our media offerings introduce customers to us and help establish us as an authority in the LOHAS market. Our primary focus is on leveraging our content and branded lifestyle offerings through various channels including traditional and digital media, catalogs, the Internet, and national retailers. We believe that the content-centric strategy is a competitive advantage and the multi-channel approach allows us the broadest possible consumer reach. It also provides the optimal context for us to market lifestyle products that are appropriate companions to the media. We are fast becoming a multi-channel digital company. Our content and products will meet the consumer wherever they are.

We will continue to develop authentic content that caters to the LOHAS lifestyle and distribute it in DVD, book and audio formats and also accelerate our efforts in the digital media, broadcast and online categories. During 2009, we expanded our fitness media library by producing celebrity content with Trudie Styler, Bob Greene and Marisa Tomei. In 2011, we will have some new personalities, such as The Biggest Loser host and star, Jillian Michaels, who currently has the number one title on Videoscan, and expand our licensing relationship with Oregon Scientific to include not only the fitness category, but also wellness. We intend to continue to expand our brand to the Conscious Media market, which incorporates family, inspirational, edutainment and children's media. We believe we can establish our brand as a leading brand in some of these media categories.

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

We have expanded our visual media offerings internationally and plan to continue to grow this opportunity. We also intend to broaden the variety of formats we offer by making our content available online to our consumers in both one-shot purchase format or subscription services.

#### ***Capitalize on our market share positioning***

Based on Nielsen's Videoscan, since 2004 we have more than doubled our U.S. DVD market share in the fitness/wellness category to approximately 40% in 2010, up from 34% in 2009. At the end of 2010, we were ranked 1st in the fitness U.S. DVD category. During 2010, the fitness DVD category grew 3% while the total DVD category declined 9%. We will utilize our leadership position and sacrifice some of our market share in fitness in order to assume a category management role bringing competitive product into the mix to establish the most complete fitness assortment in the business. We tested this concept with Target in 2008 and are now expanding the category management concept to other specialty channels. By assuming this category management role, we improved our revenues and profits as well as expanded the exposure of the category. This category management program is currently in 5,700 doors, up from 4,000 doors at the end of 2009.

Based on the same Nielsen report, we ended 2010 5th in the non-theatrical U.S. DVD category with 7% market share, up from 5% at the end of 2009. We intend to continue to grow our market share in the non-theatrical category through the production and acquisition of Conscious Media titles, focusing on edutainment, family and children's entertainment. We also plan to extend our line of offerings into wellness and green living with solution based programming and media based kits, building store within store wellness offerings and continuing to grow our retail presence.

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

We believe we can improve our profit margins with several distinct strategies. We will continue to focus our sales strategy on media that carries over 70% gross margins. We are establishing ourselves as a brand in the Conscious Media and wellness/fitness media market as well as in a genre we call edutainment. By continuing to grow our market share in media, we believe we can attract more media producers to work with our brand instead of the traditional studio or distributor model.

We launched a continuity and subscription business with our acquisition of Spiritual Cinema. This business carries over 80% gross margins and connects our media content directly to the consumer. We expect to continue to invest in this channel of business. We believe that with the increase in broadband acceptance in the consumer marketplace, coupled with our specialized media library and loyal direct customer base, we have an opportunity for strong growth at high margins as digital downloads of media become mainstream.

During 2010, we continued to focus on cost reduction and, therefore, better leveraging our infrastructure. With our in-house state-of-the-art studios and post production facilities, we will continue to focus on producing lower cost fitness media, LOHAS content for kits, online courses and web downloads. In addition, we have, and will continue to optimize our DRTV advertising and catalog circulation.

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

Our goal is to maintain our brand as an authority in the LOHAS market (including the Conscious Media market) and to establish our brand as a unifying symbol of the emerging LOHAS lifestyle. We plan to strengthen our brand by growing our media, making our brand more prominent across our direct to consumer efforts, focusing on category management initiatives, increasing our store within store presence across national retailers, increasing our marketing and public relations efforts, marketing the Gaiam brand, and aggressively developing and marketing proprietary products while maintaining our high level of customer service.

### ***Launch Reebok Branded Accessories and Media at Retail***

In 2009, we signed a multi-year licensing agreement with Reebok to manufacture and market Reebok fitness accessories and media to retailers. In 2010 we took over twelve linear feet of Reebok with store within store presentations in all Target stores.

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

Excluding our partially owned subsidiaries, our proprietary products, which we introduced in 1997, represented approximately 86% of our revenues in fiscal year 2010. These products carry a higher margin, provide for branding opportunity and distinguish us from our competitors. We currently offer proprietary products that range from media products to sleep, stress relief, yoga and Pilates accessories to organic cotton apparel, bedding and bath products. We have also expanded our exclusive media library to over 3,100 titles through acquisitions and internal development. We continue to develop and market proprietary products across the LOHAS sectors. We will continue to look for additional library acquisitions as we expand our content across the Conscious Media market. We are strengthening our supply chain globally by sourcing a greater number of products offshore and leveraging our expanding media sales to obtain lower costs from our replicators. We leverage our product development costs over all sales channels.

### ***Capitalize on our Multi-channel Approach***

Our multi-channel strategy affords us the broadest possible customer reach, as well as allowing our customers to buy from us what they want, when they want, where they want to. This approach makes purchasing our lifestyle products convenient regardless of the channel that a customer prefers. It also allows us to migrate segments of our customer base across channels to develop deeper, longer-lasting relationships with them, and to convert them from purchasers of individual media products into subscribers to our continuity programs, including online access to communities and content on a continuity basis. Additionally, this diversified, strategic approach should provide for continued operating and business stability as we have the ability to cross-market lifestyle products and services regardless of the customer location or the channel to which we are marketing.

In our direct to consumer business we are open 24 hours a day, offering products on our Internet sites. The future of our direct business (catalog, Internet, community and subscription) is evolving its platform to be more solutions-based versus transaction-based. 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 as digital downloads become more mainstream. This will allow our customers to both stream or download content as well as buy products focused on five solution-based segments: fitness/ wellness; personal growth; relationships, green living, and responsible entertainment.



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In our business segment, we continue to expand our presence in national retailers and currently have placements in approximately 65,000 retail points in the United States. We also continue to expand our store within store concept in a variety of stores, including Whole Foods Market, Barnes & Noble Bookstores, Target, Best Buy, Ulta, Dick's Sporting Goods, REI, ABC Carpet and Home and other national retailers. We currently have over 14,700 store within store concepts. As digital becomes more main stream, our strong relationships with retailers will allow us to migrate our media and products to retailers' Internet sales channels.

### ***Complement our Existing Business with Selective Strategic Acquisitions***

Our growth strategy is not dependent on acquisitions. However, we will consider those strategic acquisitions in the LOHAS market that complement our existing business, increase our media and related product offerings, expand our geographical reach, extend our channel distribution, and add to our direct customer base. We especially focus on companies with media content, a strong brand identity and customer databases that augment our existing databases. We often allow some of the acquired company's management team to retain responsibility for front-end business functions such as creative presentation and marketing, while consolidating operational functions under our existing infrastructure when we can realize economies of scale.

### ***Launch a Digital Format Platform***

While the adoption of digital media is still in the early stages, we expect the transition from DVD to digital distribution of visual content to occur rapidly in the future. During 2009, we digitized most of our media library and built an Internet platform for our content. In 2010 we tested the platform for GaiamTV and we expect GaiamTV will be fully launched by summer 2011. GaiamTV will provide leading fitness, wellness and non-theatrical digital content for streaming, rental and subscription. In addition, we have begun to establish digital distribution partners such as Amazon, YouTube, iTunes and Netflix. The goal of GaiamTV is to utilize digital content to create relationships, add subscription members and sell media to our existing customers. We have invested in our in-house studios, digital asset management system and digital delivery platforms, to allow us to produce and distribute digital content at low incremental costs. We intend to use all of our current platforms to introduce customers to our comprehensive digital offerings, clubs and communities.

## **Our Business Segments**

We separate our business into three segments: the business segment, which includes sales to businesses, retailers, international licenses, corporate accounts and media outlets; the direct to consumer segment, which includes DRTV, catalogs, E-commerce, and subscription community services; and the solar segment, which includes the design and installation of solar energy systems and the sale of related renewable energy products and sustainable living resources.

The business, direct to consumer, and solar segments represented 35.5%, 36.3%, and 28.2% of the 2010 net revenues, respectively. Our business segment is dependent upon a few major customers for a significant portion of its revenues. See Note 13 to our consolidated financial statements for further information on our segments.

## **Our Intellectual Property**

Our tradename Gaiam and various product and Internet domain names are subject to trademark or pending trademark applications of Gaiam or a Gaiam company. We believe these trademarks are significant assets to our business.

## **Our Competition**

We believe that fragmented supplier and distribution networks characterize today's LOHAS market, and we are not aware of a dominant leader. According to Nielson's Videoscan, we continue to be the leader in fitness/wellness media with 40% market share and we are ranked #5 in non-theatrical media with 7% market share. We believe the principal competitive factors in the LOHAS market are authenticity of information, unique content and distinctiveness of products and services, quality of product, brand recognition and price, and distribution capabilities. We believe we compete favorably on all these relevant factors. Because we use multi-channel distribution for our products, we compete with various producers of similar products and services. Our competitors include Warner Bros., Disney, Paramount, Fox, Lions Gate, Liberty Media, thousands of small, local and regional businesses, and product lines or items offered by large retailers, manufacturers, publishers and media producers.

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### **Our Competitive Advantage**

We believe we have a number of advantages over our competitors, including the following:

***Brand recognition and authenticity.*** Our brand is readily recognized as a leader in our industry. We have and continue to develop authentic content for the LOHAS market, particularly in the categories of fitness/wellness, eco-living and responsible media. Our reputation and longevity in the LOHAS marketplace makes us the first choice for many consumers.

***Unique vertical media content business model.*** We believe we have a competitive advantage with our unique media content business model, which is vertically integrated from content production through digital distribution. With our in-house studios, post production facility, and digital asset management distribution system, we can produce new content at a very low incremental cost.

***Multi-channel distribution capabilities.*** Our products are accessible by our customers when, where and how ever they want them. Customers may purchase and receive our products from retail stores, the Internet, direct response television, catalogs, web subscriptions, or digital streaming. Our retail distribution currently reaches 65,000 doors in the United States. In an increasing number of retailer locations, we are pairing our media content with our other product offerings to create a unique display and merchandising opportunity for our brand, which we call a store within store. We currently have over 14,700 of these displays across the country, allowing the consumer to find a Gaiam home where they shop.

***Market Share.*** We maintain a leading market share in fitness media at retail, which reflects the popularity of our content with consumers and the quality of our strategic partnerships with key retailers. We currently have a 40% market share in fitness according to Nielsen VideoScan. As a result of this leading market position, we have been successful in becoming the category manager for fitness media in over 5,700 retail locations. This role uniquely positions Gaiam as a close partner with retailers and provides us the opportunity to manage the entire fitness category at these locations. Additionally, we are the 5<sup>th</sup> largest player in the non-theatrical market with a 7% market share according to Nielsen VideoScan.

***Owned Content.*** As media content distribution moves to a digital online model, the fact that we own all rights to the majority of our titles will permit us to offer them through any channel of distribution. We have over 10 million customers that have purchased directly from Gaiam that we can market digital content to as the online and mobile digital format becomes more mainstream.

***Strong balance sheet.*** We had \$28.8 million of cash, no debt, and an unused \$15 million dollar line of credit at December 31, 2010. We believe that our financial strength differentiates us from our competitors, providing us with the ability to further acquire content or businesses that complement our business model and customer base.

### **Our Employees**

As of February 4, 2011, we employed approximately 557 full-time and 17 part-time individuals. None of our employees are covered by a collective bargaining agreement.

### **Regulatory Matters**

A number of existing and proposed laws restrict disclosure of consumers personal information, which may make it more difficult for us to generate additional names for our direct marketing, and restrict our ability to send unsolicited electronic mail or printed materials. Although we believe we are generally in compliance with current laws and regulations and that these laws and regulations have not had a significant impact on our business to date, it is possible that existing or future regulatory requirements will impose a significant burden on us.

We generally collect sales taxes only on sales to residents of states in which we have locations. Currently, we collect sales taxes on certain sales to residents of California, Colorado, Illinois, New York and Ohio. A number of legislative proposals have been made at the federal, state and

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local level, and by foreign governments, that would impose additional taxes on the sale of goods and services over the Internet and certain states have taken measures to tax Internet-related activities. If legislation is enacted that requires us to collect sales taxes on sales to residents of other states or jurisdictions, sales in our direct to consumer businesses may be adversely affected.

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Our business is also subject to a number of other governmental regulations, including the Mail or Telephone Order Merchandise Rule and related regulations of the Federal Trade Commission. These regulations prohibit unfair methods of competition and unfair or deceptive acts or practices in connection with mail and telephone order sales and require sellers of mail and telephone order merchandise to conform to certain rules of conduct with respect to shipping dates and shipping delays. We are also subject to regulations of the U.S. Postal Service and various state and local consumer protection agencies relating to matters such as advertising, order solicitation, shipment deadlines and customer refunds and returns. In addition, merchandise that we import is subject to import and customs duties and, in some cases, import quotas.

### **Seasonality**

See the Quarterly and Seasonal Fluctuations section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for information pertaining to the seasonal aspects of our business.

### **Available Information**

Our corporate website at [www.gaiam.com/corporate](http://www.gaiam.com/corporate) provides information about us, our history, goals and philosophy, as well as certain financial reports and corporate press releases. Our [www.gaiam.com](http://www.gaiam.com) website features a library of information and articles on personal development, healthy lifestyles and environmental issues, along with an extensive offering of media, products and services. We believe our website provides us with an opportunity to deepen our relationships with our customers and investors, educate them on a variety of issues, and improve our service. As part of this commitment, we have added a link on our corporate website to our Securities and Exchange Commission filings, including our reports on Form 10-K, 10-Q and 8-K and all amendments to such reports. We make those reports available through our website, free of charge, as soon as reasonably practicable after these reports are filed with the Securities and Exchange Commission.

We have included our website addresses only as inactive textual reference, and the information contained on our website is not incorporated by reference into the Form 10-K.

### **Item 1A. Risk factors**

We wish to caution you that there are risks and uncertainties that could cause our actual results to be materially different from those indicated by forward looking statements that we make from time to time in filings with the Securities and Exchange Commission, news releases, reports, proxy statements, registration statements and other written communications as well as oral forward looking statements made from time to time by our representatives. These risks and uncertainties include those risks described below of which we are presently aware. Historical results are not necessarily an indication of the future results. The cautionary statements below discuss important factors that could cause our business, financial condition, operating results and cash flows to be materially adversely affected.

#### ***Changes in general economic conditions could have a material impact on our business***

Changes in overall economic conditions that impact consumer spending could impact our results of operations. Future economic conditions affecting disposable income such as inflation, employment levels, consumer confidence, credit availability, business conditions, stock market volatility, weather conditions, acts of terrorism, threats of war, and interest and tax rates could reduce consumer spending or cause consumers to shift their spending away from our products. If the economic conditions and performance of the retail and media environment worsen, we may experience material adverse impacts on our business, operating results and financial condition.

#### ***Increased competition could impact our financial results***

We believe that the LOHAS market includes thousands of small, local and regional businesses. Some smaller businesses may be able to more effectively personalize their relationships with customers, thereby gaining a competitive advantage. Although we believe that we do not compete directly with any single company that offers our entire range of merchandise and services, within each category we have competitors and we may face competition from new entrants. Some of our competitors or our potential competitors may have greater financial and marketing resources and greater brand recognition. In addition, larger, well-established and well-financed entities may acquire, invest in or form joint ventures with our competitors. Increased competition from these or other competitors could negatively impact our business.

#### ***Changing consumer preferences may have an adverse effect on our business***

We target consumers who assign high value to personal development, healthy lifestyles, responsible media, renewable energy and the





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environment. A decrease of consumer interest in purchasing goods and services that promote the values we espouse would materially and adversely affect our customer base and sales revenues and, accordingly, our financial prospects. Further, consumer preferences and product trends are difficult to predict. Our future success depends in part on our ability to anticipate and respond to changes in consumer preferences and we may not respond in a timely or commercially appropriate manner to such changes. Failure to anticipate and respond to changing consumer preferences and product trends could lead to, among other things, lower sales of our products, increased merchandise returns and lower margins, which could have a material adverse effect on our business.

***Our strategy of offering branded products could lead to inventory risk and higher costs***

An important part of our strategy is to feature branded products. These products are sold under our brand names and are manufactured to our specifications. We expect our reliance on branded merchandise to increase. The use of branded merchandise requires us to incur costs and risks relating to the design and purchase of products, including submitting orders earlier and making longer initial purchase commitments.

In addition, the use of branded merchandise limits our ability to return unsold products to vendors, which can result in higher markdowns in order to sell excess inventory. Our commitment to customer service typically results in our keeping a high level of merchandise in stock so we can fill orders quickly. Consequently, we run the risk of having excess inventory, which may also contribute to higher markdowns. Our failure to successfully execute a branded merchandise strategy or to achieve anticipated profit margins on these goods, or a higher than anticipated level of overstocks, may materially adversely affect our revenues.

We offer our customers liberal merchandise return policies. Our consolidated financial statements include a reserve for anticipated merchandise returns, which is based on historical return rates. It is possible that actual returns may increase as a result of factors such as the introduction of new merchandise, changes in merchandise mix or other factors. Any increase in our merchandise returns will correspondingly reduce our revenues and profits.

***Acquisitions may harm our financial results***

We have historically expanded our operations in part through strategic acquisitions. We cannot accurately predict the timing, size and success of our acquisition efforts. Our acquisition strategy involves significant risks that could inhibit our growth and negatively impact our operating results, including the following: our ability to identify suitable acquisition candidates at acceptable prices; our ability to complete the acquisitions of candidates that we identify; our ability to compete effectively for available acquisition opportunities; increases in asking prices by acquisition candidates to levels beyond our financial capability or to levels that would not result in the returns required by our acquisition criteria; diversion of management's attention to expansion efforts; unanticipated costs and contingent liabilities associated with acquisitions; failure of acquired businesses to achieve expected results; our failure to retain key customers or personnel of acquired businesses and difficulties entering markets in which we have no or limited experience. In addition, the size, timing and success of any future acquisitions may cause substantial fluctuations in our operating results from quarter to quarter. Consequently, our operating results for any quarter may not be indicative of the results that may be achieved for any subsequent quarter or for a full fiscal year. These fluctuations could adversely affect the market price of our Class A common stock.

***The loss of the services of our key personnel could disrupt our business***

We depend on the continued services and performance of our senior management and other key personnel, particularly Jirka Rysavy and Lynn Powers. Our strategy of allowing the management teams of some acquired companies to continue to exercise significant management responsibility for those companies makes it important that we retain key employees, particularly the sales and creative teams, of the companies we might acquire.

***Our founder and chairman Jirka Rysavy controls us***

Mr. Rysavy holds 100% of our 5,400,000 outstanding shares of class B common stock and also owns 668,682 shares of Class A common stock. The shares of Class B common stock are convertible into shares of Class A common stock at any time. Each share of Class B common stock has ten votes per share, and each share of Class A common stock has one vote per share. Consequently, Mr. Rysavy holds approximately 76% of our voting stock and, thus, is able to exert substantial influence over us and to control matters requiring approval by our shareholders, including the election of directors, increasing our authorized capital stock, or a merger or sale of substantially all of our assets. As a result of Mr. Rysavy's control of us, no change of control can occur without Mr. Rysavy's consent.

***Our success depends on the value of our brand***

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Because of our reliance on sales of proprietary products, our success depends on our brand. Building and maintaining recognition of

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our brand are important for attracting and expanding our customer base. If the value of our brand were adversely affected, we cannot be certain that we will be able to attract new customers, retain existing customers or encourage repeat purchases, and if the value of our brand were to diminish, our revenues, results of operations and prospects would be adversely affected.

### ***The operating results of our solar energy business could adversely affect our operating results***

The operating results of our 55%-owned subsidiary, Real Goods Solar, Inc. ( "Real Goods" ), are consolidated into our reported results from operations. To the extent that Real Goods reports a loss for any given period, this will adversely affect our operating results for that period. Real Goods reported a net income for its fiscal year ended December 31, 2010 of \$1.2 million. Real Goods' business is affected by general business factors, including prevailing economic conditions, competition, declining consumer credit market conditions, and similar factors. Real Goods business may also be affected by many factors that specifically affect the demand for solar energy systems and the solar energy industry, including the following:

- fluctuations in economic and market conditions that affect the viability of conventional and non-solar renewable energy sources, such as changes in the price of oil and other fossil fuels;
- availability of government subsidies and incentives to support the development of the solar energy industry;
- cost-effectiveness, performance and reliability of solar energy systems compared with conventional and other non-solar renewable energy sources and products;
- success of other renewable energy generation technologies, such as hydroelectric, wind, geothermal, solar thermal, concentrated solar and biomass;
- fluctuations in expenditures by purchasers of solar energy systems, which tend to decrease in slower economic environments and periods of rising interest rates;
- deregulation of the electric power industry and the broader energy industry;
- shortages in the supply of any of the components used for solar energy systems; and
- changes in governmental regulations that affect the installation of solar energy systems, which may make installation more difficult, more expensive, or impracticable.

### ***Disputes concerning media content and intellectual property may adversely affect us***

Most of our media content is subject to arrangements with third parties pursuant to which we have licensed certain rights to use and distribute media content owned by third parties or have licensed to third parties certain rights to use and distribute media content that we own. In addition, we have a number of agreements with third parties concerning the use of our media content and intellectual property, including agreements regarding royalties, distribution, duplication, etc. Allegations that our rights to use media content are incomplete or other disputes arising from such arrangements may be costly and may have a material adverse impact on our results.

### ***Product liability claims against us could result in adverse publicity and potentially significant monetary damages***

As a seller of consumer products, we may face product liability claims in the event that use of our products results in injuries. If such injuries or claims of injuries were to occur, we could incur monetary damages and our business could be adversely affected by any resulting negative publicity. The successful assertion of product liability claims against us also could result in potentially significant monetary damages and, if our insurance protection is inadequate to cover these claims, could require us to make significant payments from our own resources.

### ***We are dependent on third party suppliers for the success of our proprietary products***

We are dependent on the success of our proprietary products, and we rely on a select group of manufacturers to provide us with sufficient quantities to meet our customers' demands in a timely manner, produce these products in a humane and safe environment for both their workers and the planet, maintain quality standards consistent with our brand, and meet certain pricing guarantees. Our overseas sourcing arrangements carry risks associated with products manufactured outside of the U.S., including political unrest and trade restrictions, currency fluctuations, transportation difficulties, work stoppages, and other uncertainties. In addition, a number of our suppliers are small companies, and some of these vendors may not have sufficient capital, resources or personnel to maintain or increase their sales to us or to meet our needs for commitments from them. The failure of our suppliers to provide sufficient quantities of our proprietary products could decrease our revenues, increase our costs, and damage our customer service reputation.

### ***We rely on communications and shipping networks to deliver our products***

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Given our emphasis on customer service, the efficient and uninterrupted operation of order-processing and fulfillment functions is critical to our business. To maintain a high level of customer service, we rely heavily on a number of different outside service

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providers, such as printers, telecommunications companies and delivery companies. Any interruption in services from our principal outside service providers, including delays or disruptions resulting from labor disputes, power outages, human error, adverse weather conditions or natural disasters, could materially adversely affect our business. In addition, freight carriers must ship products that we source overseas to our distribution center, and a work stoppage or political unrest could adversely affect our ability to fulfill our customer orders.

### ***Information systems upgrades or integrations may disrupt our operations or financial reporting***

We continually evaluate and upgrade our management information systems, which are critical to our business. These systems assist in processing orders, managing inventory, purchasing and shipping merchandise on a timely basis, responding to customer service inquiries, and gathering and analyzing operating data by business segment, customer, and stock keeping unit (a specific identifier for each different product). We are required to continually update these systems. Furthermore, if we acquire other companies, we will need to integrate the acquired companies' systems with ours, a process that could be time-consuming and costly. If our systems cannot accommodate our growth or if they fail, we could incur substantial expenses and our business could be adversely affected.

Additionally, success in E-commerce depends upon our ability to provide a compelling and satisfying shopping experience. To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our online technology, and if we are unable to do this, our business could be adversely affected.

### ***A material security breach could cause us to lose sales, damage our reputation or result in liability to us***

Our computer servers may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. We may need to expend significant additional capital and other resources to protect against a security breach or to alleviate problems caused by any breaches. Our relationships with our customers may be adversely affected if the security measures that we use to protect personal information such as credit card numbers are ineffective. We currently rely on security and authentication technology that we license from third parties. We may not succeed in preventing all security breaches and our failure to do so could adversely affect our business.

### ***Our systems may fail or limit user traffic, which would cause us to lose sales***

We support a portion of our business through our call center in Louisville, Colorado. Even though we have back up arrangements, we are dependent on our ability to maintain our computer and telecommunications equipment in this center in effective working order and to protect against damage from fire, natural disaster, power loss, telecommunications failure or similar events. In addition, growth of our customer base may strain or exceed the capacity of our computer and telecommunications systems and lead to degradations in performance or systems failure. We have experienced capacity constraints and failure of information systems in the past that have resulted in decreased levels of service delivery or interruptions in service to customers for limited periods of time. Although we continually review and consider upgrades to our technical infrastructure and provide for system redundancies and backup power to limit the likelihood of systems overload or failure, substantial damage to our systems or a systems failure that causes interruptions for a number of days could adversely affect our business. Additionally, if we are unsuccessful in updating and expanding our infrastructure, including our call center, our ability to grow may be constrained.

### ***Government regulation of the Internet and E-commerce is evolving and unfavorable changes could harm our business***

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet and E-commerce. Such existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover taxation, user privacy, pricing, content, copyrights, distribution, consumer protection, the provision of online payment services and quality of products and services. There is lack of clarity on how existing laws governing issues such as property ownership, sales and other taxes and personal privacy apply to the Internet and E-commerce. Unfavorable resolution of these issues may harm our business.

### ***We may face legal liability for the content contained on our websites***

We could face legal liability for defamation, negligence, copyright, patent or trademark infringement, personal injury or other claims based on the nature and content of materials that we publish or distribute on our websites. If we are held liable for damages for the content on our websites, our business may suffer. Further, one of our goals is for our websites to be trustworthy and dependable providers of information and services. Allegations of impropriety, even if unfounded, could therefore have a material adverse effect on our reputation and our business.

**Table of Contents*****Relying on our centralized fulfillment center could expose us to losing revenue***

Prompt and efficient fulfillment of our customers' orders is critical to our business. Our facility in Cincinnati, Ohio handles our fulfillment functions and some customer-service related operations, such as returns processing. A majority of our orders are filled and shipped from the Cincinnati facility. The balance is shipped directly from suppliers. Because we rely on a centralized fulfillment center, our fulfillment functions could be severely impaired in the event of fire, extended adverse weather conditions, transportation difficulties or natural disasters. Because we recognize revenue only when we ship orders, interruption of our shipping could diminish our revenues.

***We may face quarterly and seasonal fluctuations that could harm our business***

Our revenue and results of operations have fluctuated and will continue to fluctuate on a quarterly basis as a result of a number of factors, including the timing of catalog offerings, timing of orders from retailers, recognition of costs or net sales contributed by new merchandise, fluctuations in response rates, fluctuations in paper, production and postage costs and expenses, merchandise returns, adverse weather conditions that affect distribution or shipping, shifts in the timing of holidays and changes in our merchandise mix. In particular, our net sales and profits have historically been higher during the fourth quarter holiday season. We believe that this seasonality will continue in the future.

***Postage and shipping costs may increase and therefore increase our expenses***

We ship our products, catalogs, and lifestyle publications to consumers and the cost of shipping is a material expenditure. Postage and shipping prices increase periodically and can be expected to increase in the future. Any inability to secure suitable or commercially favorable prices or other terms for the delivery of our merchandise and catalogs could have a material adverse effect on our financial condition and results of operations.

***Our business is subject to reporting requirements that continue to evolve and change, which could continue to require significant compliance effort and resources***

Because our common stock is publicly traded, we are subject to certain rules and regulations of federal, state and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities, including the Public Company Accounting Oversight Board, the SEC and the NASDAQ, periodically issue new requirements and regulations and legislative bodies also review and revise applicable laws such as the Sarbanes-Oxley Act of 2002. As interpretation and implementation of these laws and rules and promulgation of new regulations continues, we will continue to be required to commit significant financial and managerial resources and incur additional expenses.

**Item 1B. Unresolved staff comments**

None.

**Item 2. Properties**

Our principal executive offices are located in Louisville, Colorado. Our fulfillment center is located in the Cincinnati, Ohio area. The following table sets forth certain information relating to our primary facilities:

Primary Locations	Size	Use	Lease Expiration
Louisville, CO	148,400 sq. ft.	Headquarters and studios	Owned
Cincinnati, OH	208,120 sq. ft.	Fulfillment center	June 2013
New York, NY	12,700 sq. ft.	Media office	March 2015
Hopland, CA	12 acres	Renewable energy demo site	Owned
Our existing fulfillment center lease has renewal options permitting the extension of the lease for up to an additional six years. We believe our facilities are adequate to meet our current needs and that suitable additional facilities will be available for lease or purchase when, and as, we			

need them.



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