

---

---

**United States  
Securities and Exchange Commission**  
Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended September 30, 2005

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES AND EXCHANGE ACT OF 1934**

Commission File Number 0-27517

**GAIAM, INC.**

(Exact name of registrant as specified in its charter)

**COLORADO**  
(State or other jurisdiction of  
incorporation or organization)

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

**360 INTERLOCKEN BLVD.,  
BROOMFIELD, COLORADO 80021**  
(Address of principal executive offices)

**(303) 222-3600**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES  NO

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes  No

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

Class	Shares outstanding as of November 8, 2005
Class A Common Stock (\$ .0001 par value)	14,846,485
Class B Common Stock (\$ .0001 par value)	5,400,000

---

---

**INDEX TO FORM 10-Q**

**PART I. FINANCIAL INFORMATION**

- Item 1. Condensed Consolidated Financial Statements (Unaudited)  
[Condensed Consolidated Balance Sheets at September 30, 2005 and December 31, 2004](#)  
[Condensed Consolidated Statements of Operations for the three months ended September 30, 2005 and 2004](#)  
[Condensed Consolidated Statements of Operations for the nine months ended September 30, 2005 and 2004](#)  
[Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 and 2004](#)  
[Notes to Interim Condensed Consolidated Financial Statements](#)

[Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations](#)

[Item 3. Quantitative and Qualitative Disclosures About Market Risk](#)

[Item 4. Controls and Procedures](#)

**PART II. OTHER INFORMATION**

[Item 1. Legal Proceedings](#)

[Item 2. Unregistered Sales of Equity Securities and Use of Proceeds](#)

[Item 3. Defaults Upon Senior Securities](#)

[Item 4. Submission of Matters to a Vote of Security Holders](#)

[Item 5. Other Information](#)

[Item 6. Exhibits](#)

**SIGNATURES**

**FORWARD-LOOKING STATEMENTS**

This report may contain forward-looking statements that involve risks and uncertainties. When used in this discussion, the words “anticipate,” “believe,” “plan,” “estimate,” “expect,” “strive,” “future,” “intend” and similar expressions as they relate to Gaiam or its management are intended to identify such forward-looking statements. Gaiam’s 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, consumer trends, acquisitions, new initiatives undertaken by Gaiam, security and information systems, legal liability for website content, merchandise supply problems, failure of third parties to provide adequate service, our 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, control of Gaiam by its founder, fluctuations in quarterly operating results, customer interest in our products, the effect of government regulation and other risks and uncertainties included in Gaiam’s 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 management’s view only as of the date of this report. We undertake no obligation to update any forward-looking information.

GAIAM, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share information)

	September 30, 2005 (Unaudited)	December 31, 2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,247	\$ 10,439
Accounts receivable, net	20,863	13,914
Income tax and other receivables	3,008	3,000
Inventory, less allowances	21,186	16,503
Prepaid expenses	5,466	1,324
Deferred advertising costs	4,312	2,635
Deferred tax assets	523	1,145
Total current assets	65,605	48,960
Property and equipment, net	7,683	7,857
Investments	15,318	7,865
Capitalized production costs, net	5,161	5,457
Media library, net	15,634	5,427
Intangible assets and goodwill	24,439	9,757
Non-current deferred tax assets	3,883	2,657
Other assets	1,417	307
Total assets	\$ 139,140	\$ 88,287
<b>Liabilities and stockholders’ equity</b>		
Current liabilities:		

Accounts payable	\$ 17,539	\$ 13,910
Accrued liabilities	1,673	3,160
Accrued royalties	9,305	538
Income taxes payable	397	864
Total current liabilities	<u>28,914</u>	<u>17,472</u>
Long-term liabilities	989	—
Total liabilities	<u>29,903</u>	<u>17,472</u>
Minority interest	4,487	4,469
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 14,833,555 and 9,411,897 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	1	1
Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at September 30, 2005 and December 31, 2004	1	1
Additional paid-in capital	93,890	54,933
Accumulated other comprehensive income	442	850
Retained earnings	10,416	10,561
Total stockholders' equity	<u>104,750</u>	<u>66,346</u>
Total liabilities and stockholders' equity	<u>\$ 139,140</u>	<u>\$ 88,287</u>

See accompanying notes to the condensed consolidated financial statements.

GAIAM, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(In thousands, except per share amounts)

	For the Three Months Ended September 30,	
	2005	2004
Net revenue	\$ 30,139	\$ 21,023
Cost of goods sold	13,426	11,196
Gross profit	<u>16,713</u>	<u>9,827</u>
Expenses:		
Selling and operating	13,682	10,270
Corporate, general and administration	2,153	1,881
Total expenses	<u>15,835</u>	<u>12,151</u>
Income (loss) from operations	878	(2,324)
Other income (expense)	(1)	83
Interest income	202	55
Total other income	<u>201</u>	<u>138</u>
Income (loss) before income taxes and minority interest	1,079	(2,186)
Income tax expense (benefit)	406	(856)
Minority interest in net income of consolidated subsidiaries, net of tax	(168)	(200)
Net income (loss)	<u>\$ 505</u>	<u>\$ (1,530)</u>
Net income (loss) per share:		
Basic	\$ 0.03	\$ (0.10)
Diluted	\$ 0.03	\$ (0.10)
Shares used in computing net income (loss) per share:		
Basic	18,592	14,712
Diluted	18,892	14,712

See accompanying notes to the condensed consolidated financial statements.

GAIAM, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)  
 (In thousands, except per share amounts)

	For the Nine Months Ended September 30,	
	2005	2004
Net revenue	\$ 78,169	\$ 61,829
Cost of goods sold	37,150	30,786
Gross profit	41,019	31,043
Expenses:		
Selling and operating	35,307	31,398
Corporate, general and administration	5,818	5,932
Total expenses	41,125	37,330
Loss from operations	(106)	(6,287)
Other income	37	135
Interest income	272	135
Total other income	309	270
Income (loss) before income taxes and minority interest	203	(6,017)
Income tax expense (benefit)	4	(2,269)
Minority interest in net income of consolidated subsidiaries, net of tax	(344)	(326)
Net loss	\$ (145)	\$ (4,074)
Net loss per share:		
Basic	\$ (0.01)	\$ (0.28)
Diluted	\$ (0.01)	\$ (0.28)
Shares used in computing net loss per share:		
Basic	16,091	14,671
Diluted	16,091	14,671

*See accompanying notes to the condensed consolidated financial statements.*

GAIAM, INC.  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
 (Unaudited – In thousands)

	For the Nine Months Ended September 30,	
	2005	2004
<b>Operating activities</b>		
Net loss	\$ (145)	\$ (4,074)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,666	2,131
Amortization	1,280	1,232
Stock compensation	—	54
Minority interest in consolidated subsidiaries	343	326
Deferred income tax expense	(469)	330
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	2,333	5,896
Inventory	1,451	(606)
Deferred advertising costs	(1,676)	(1,758)
Prepaid expenses	(2,587)	107
Other assets	(1,145)	254
Accounts payable	(1,290)	(1,628)
Accrued liabilities	1,953	251
Income taxes payable	(441)	(271)

Net cash provided by operating activities	1,273	2,244
<b>Investing activities</b>		
Purchase of property, equipment and media rights	(928)	(1,378)
Payments for acquisitions and investments	(38,739)	—
Net cash used in investing activities	(39,667)	(1,378)
<b>Financing activities</b>		
Principal payments on capital leases	—	(48)
Proceeds from issuance of common stock	38,468	427
Net cash provided by financing activities	38,468	379
Effects of exchange rates on cash and cash equivalents	(266)	45
Net change in cash and cash equivalents	(192)	1,290
Cash and cash equivalents at beginning of period	10,439	8,384
Cash and cash equivalents at end of period	<u>\$ 10,247</u>	<u>\$ 9,674</u>
<b>Supplemental cash flow information</b>		
Interest paid	\$ —	\$ —
Income taxes paid	743	615
Common stock issued for acquisitions	390	—

*See accompanying notes to the condensed consolidated financial statements*

Gaiam, Inc.  
Notes to Interim Condensed Consolidated Financial Statements  
(Unaudited)  
September 30, 2005

1. Interim Condensed Consolidated Financial Statements

Organization and Nature of Operations

Gaiam, Inc. is a lifestyle media company providing a broad selection of content, information, and products to individuals who value personal development, natural health, and inspirational media. Gaiam was incorporated under the laws of the State of Colorado on July 7, 1988.

The accompanying condensed consolidated financial statements include the accounts of Gaiam and its subsidiaries in which Gaiam's ownership is greater than 50% and the subsidiary is considered to be under Gaiam's control. All material intercompany accounts and transaction balances have been eliminated in consolidation.

Preparation of Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements included herein have been prepared by the management of Gaiam pursuant to the rules and regulations of the United States Securities and Exchange Commission, and, in the opinion of management, contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly Gaiam's consolidated financial position as of September 30, 2005, the interim results of operations for the three and nine months ended September 30, 2005 and 2004, and cash flows for the nine months ended September 30, 2005 and 2004. These interim statements have not been audited. The balance sheet as of December 31, 2004 was derived from Gaiam's audited consolidated financial statements included in Gaiam's annual report on Form 10-K.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. Accounting policies followed by Gaiam are described in Note 1 to the audited financial statements for the fiscal year ended December 31, 2004 included in Gaiam's annual report on Form 10-K. The consolidated financial statements contained herein should be read in conjunction with Gaiam's audited financial statements, including the notes thereto, for the year ended December 31, 2004.

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

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current period presentations.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised), *Share-Based Payment*, which supersedes Accounting Principles Board ("APB") No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"), and its related implementation guidance. Under

SFAS No. 123 (revised), all share-based payments would be treated as other forms of compensation by recognizing the costs, generally measured as the fair value at the date of grant, in the statement of operations. Gaiam will adopt SFAS No. 123 (revised) for its fiscal year beginning January 1, 2006, in accordance with rules adopted by the Securities and Exchange Commission on April 14, 2005. Management expects that the impact of the adoption of

SFAS No. 123 (revised) will be that the share-based payment expense amounts historically disclosed as required by SFAS No. 123 will now be recognized as an expense on the statement of operations.

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3* (“SFAS 154”). This Statement replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS 154 is effective for accounting changes and corrections or error made in fiscal years beginning after December 15, 2005. Consequently, Gaiam will adopt the provisions of SFAS 154 for its fiscal year beginning on January 1, 2006. Management currently believes that adoption of the provisions of SFAS 154 will not have a material impact on Gaiam’s consolidated financial statements.

#### Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

#### Stock-Based Compensation

Gaiam accounts for its stock-based compensation arrangements under the provisions of APB No. 25 and related interpretations, including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, rather than the alternative fair value accounting allowed by SFAS No. 123, *Accounting for Stock Based Compensation*. Accordingly, no compensation expense is recognized in Gaiam’s consolidated financial statements in connection with stock options granted to employees with exercise prices not less than fair value. Deferred compensation for options granted to employees is determined as the difference between the fair market value of Gaiam’s common stock on the date options were granted and the exercise price. For purposes of this pro-forma disclosure, the estimated fair value of options is assumed to be amortized to expense over the options’ vesting periods.

Compensation expense for options granted to non-employees has been determined in accordance with SFAS No. 123 as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Compensation expense for options granted to non-employees was periodically re-measured, as the underlying options vested. Had compensation cost for Gaiam’s stock-based compensation plan been determined under the fair value methodology under SFAS No. 123, Gaiam’s net income (loss) and income (loss) per share would have been as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss) as reported	\$ 505	\$ (1,530)	\$ (145)	\$ (4,074)
Add: Stock-based compensation expense included in reported net income (loss), net of related tax effects	—	18	—	54
Deduct: Total stock-based compensation expenses determined under fair value based method for all awards, net of related tax effects	(37)	(125)	(182)	(454)
Pro forma	\$ 468	\$ (1,637)	\$ (327)	\$ (4,474)
Net income (loss) per common share				
As reported	\$ 0.03	\$ (0.10)	\$ (0.01)	\$ (0.28)
Pro forma	\$ 0.03	\$ (0.11)	\$ (0.02)	\$ (0.30)
Fully diluted net income (loss) per common share				
As reported	\$ 0.03	\$ (0.10)	\$ (0.01)	\$ (0.28)
Pro forma	\$ 0.03	\$ (0.11)	\$ (0.02)	\$ (0.30)

## 2. Mergers and Acquisitions

In the third quarter of 2005, Gaiam acquired a media catalog business and its customer mailing list. The total consideration given for these assets was 60,000 shares of Class A common stock, valued at \$390 thousand. The customer mailing list was valued at approximately \$160 thousand, and the balance of the purchase price was allocated to goodwill. Management believes that this media

catalog, which is already established in the marketplace, will augment our Internet marketing in the direct to consumer distribution of our own media titles and those purchased from GoodTimes Entertainment. The operating results of this catalog are included in the results of operations from August 1, 2005. These results were not significant to the overall consolidated Gaiam operations.

On August 4, 2005, Gaiam and its Chairman and Chief Executive Officer, Jirka Rysavy, entered into a series of agreements with Revolution Living, LLC; its founder, Steve Case, and Revolution Living's LIME Media ("LIME") subsidiary to establish a multi-faceted strategic relationship. Under the terms of the Transaction Agreement, Gaiam acquired a minority interest in LIME for approximately \$7.5 million.

On September 13, 2005, Gaiam acquired substantially all of the assets of GoodTimes Entertainment and certain of its affiliates. GoodTimes Entertainment's assets included entertainment programming and home video products distributed through various channels, including television, retailers and the Internet. The total purchase price consisted of the following (in thousands):

Cash	\$	34,405
Acquisition, legal and accounting costs		621
Total purchase price	\$	<u>35,026</u>

The following is a summary of the preliminary asset purchase price allocation (in thousands):

Tangible assets less liabilities	\$	9,658
Media library and intangible assets		14,400
Goodwill		<u>10,968</u>
Total purchase price	\$	<u>35,026</u>

The preliminary allocation of the total purchase price of the assets acquired from GoodTimes Entertainment was based on their estimated fair values as of September 13, 2005. Adjustments to these estimates will be included in the allocation of the purchase price, if the adjustment is determined within

the purchase price allocation period of up to twelve months. The excess of the purchase price over the identifiable intangible and net tangible assets was allocated to goodwill.

Gaiam commenced distribution of titles and content acquired in this asset purchase on September 13, 2005, and the results of sales in both the direct to consumer and business segments are included in the consolidated financial statements of Gaiam from September 13, 2005.

### 3. Stockholders' Equity

During the first quarter of 2005, Gaiam issued a total of 8,221 shares of Class A common stock to Gaiam's independent directors, in lieu of cash compensation, for services rendered in 2004. In addition, for the nine months ended September 30, 2005, Gaiam issued 32,120 shares of Class A common stock upon exercise of options granted under Gaiam's 1999 Long-Term Incentive Plan.

On July 7, 2005, Gaiam issued and sold 2,821,317 shares of unregistered Class A common stock for an aggregate purchase price of approximately \$18.7 million to certain funds advised by Prentice Capital Management, LP.

On August 1, 2005, Gaiam issued 60,000 shares of Class A common stock as purchase consideration for a media catalog business.

On August 22, 2005, Gaiam issued and sold 2,500,000 shares of unregistered Class A common stock for an aggregate purchase price of \$20 million to Revolution Living, LLC.

### 4. Comprehensive Income (Loss)

Gaiam's comprehensive income (loss) is comprised of net income (loss) and foreign currency translation adjustment, net of income taxes. Comprehensive income (loss), net of related tax effects, was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss)	\$ 505	\$ (1,530)	\$ (145)	\$ (4,074)
Foreign currency translation adjustment, net	(80)	(9)	(408)	76
Comprehensive income (loss), net of taxes	\$ 425	\$ (1,539)	\$ (553)	\$ (3,998)

### 5. Earnings (Loss) per Share

Basic earnings (loss) per share exclude any dilutive effects of options, warrants and dilutive securities. Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and common stock equivalent shares outstanding during the period. Common equivalent shares of 138 thousand are excluded from the computation of diluted earnings per share for the three months ended September 30, 2004, and 172 and 134 thousand common equivalent shares are excluded from the computation for the nine

months ended September 30, 2005 and 2004, respectively, because their effect is anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

10

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Numerator for basic and diluted earnings (loss) per share	\$ 505	\$ (1,530)	\$ (145)	\$ (4,074)
Denominator:				
Weighted average shares for basis earnings (loss) per share	18,592	14,712	16,091	14,671
Effect of dilutive securities:				
Weighted average of common stock, stock options and warrants	300	—	—	—
Denominators for diluted earnings (loss) per share	18,892	14,712	16,091	14,671
Net income (loss) per share - basic	\$ 0.03	\$ (0.10)	\$ (0.01)	\$ (0.28)
Net income (loss) per share - diluted	\$ 0.03	\$ (0.10)	\$ (0.01)	\$ (0.28)

## 6. Segment Information

Gaiam manages its business and aggregates its operational and financial information in accordance with two reportable segments. The direct to consumer segment contains Gaiam's catalog and Internet sales channels, while the business segment comprises the retailer, media and corporate account channels.

Although Gaiam is able to track revenue by sales channel, management, allocation of resources and analysis and reporting of expenses is solely on a combined basis, at the reportable segment level.

Contribution margin is defined as net sales, less cost of goods sold and direct expenses. Financial information for Gaiam's business segments was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net revenue:				
Direct to consumer	\$ 16,248	\$ 11,347	\$ 41,520	\$ 33,776
Business	13,891	9,676	36,649	28,053
Consolidated net revenue	30,139	21,023	78,169	61,829
Contribution margin:				
Direct to consumer	211	38	(41)	(464)
Business	667	(2,362)	(65)	(5,823)
Consolidated contribution margin (loss)	\$ 878	\$ (2,324)	\$ (106)	\$ (6,287)
Reconciliation of contribution margin (loss) to net income (loss):				
Other income	201	138	309	270
Income tax expense (benefit)	406	(856)	4	(2,269)
Minority interest in net income of consolidated subsidiaries, net of tax	(168)	(200)	(344)	(326)
Net income (loss)	\$ 505	\$ (1,530)	\$ (145)	\$ (4,074)

## 7. Related Party Transactions

On August 3, 2005, Gaiam and Jirka Rysavy, Gaiam's Chairman and Chief Executive Officer, entered into an Insurance and Stock Redemption Agreement pursuant to which Gaiam agreed to use the proceeds of any life insurance Gaiam elects to obtain on Mr. Rysavy to acquire Gaiam shares from Mr. Rysavy's estate. The purchase price for any shares will be determined by a national recognized valuation expert.

11

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

The following discussion and analysis of Gaiam's financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this document.

### Overview and Outlook



Gaiam is a lifestyle media company providing content, information, and products to customers who value personal development, healthy living, and inspirational media.

With the inception of our business segment in 1998, Gaiam started to sell directly to retailers, both domestically and abroad. Gaiam products are available in over 40,000 stores. Gaiam introduced its “store-within-store” lifestyle presentations, which utilize custom fixtures designed and produced by Gaiam, in late 2000, and the placement of this concept has grown to over 4,300 stores. In 2004, revenue in this segment was \$44.2 million. During the first nine months of 2005, revenue generated by internal growth of 24% over the first nine months of 2004 in the business segment brought revenue to \$32.2 million. Gaiam continues to focus on the national retailer and media channels and plans to continue to build this segment through a combination of new media releases, store within store concept, and expansions in mass market retailers, grocery, bookstores and other media outlets.

The direct to consumer segment continues to be an integral part of Gaiam’s outreach. This segment accounted for 54%, or approximately \$52.4 million, of Gaiam’s revenue during 2004. During the first nine months of 2005, revenue generated by internal growth of 17% in this segment brought revenue to \$39.2 million, and represented 55% of total revenue. Through its diverse media reach, the direct to consumer segment provides branding, an opportunity to launch and support new media releases, a sounding board for new product testing, promotional opportunities and customer feedback on Gaiam’s and the LOHAS (Lifestyles of Health and Sustainability) industry’s focus and future.

On September 13, 2005, Gaiam acquired substantially all of the assets of GoodTimes Entertainment and certain of its affiliates. GoodTimes Entertainment’s assets included entertainment programming and home video products distributed through various channels, including television, theatres, retailers and the Internet. GoodTimes Entertainment’s library contained wellness franchises such as The Firm and Tae Bo, children classics and theatrical releases. The purchase price for the assets was \$35 million in cash plus the assumption of certain liabilities, and the acquisition was financed through cash on hand and cash raised in private equity transactions completed in the third quarter of 2005.

With the completion of the GoodTimes asset acquisition, Gaiam expects to generate over \$200 million in annual revenues. Gaiam’s home media is now carried by over 40,000 retail stores in United States. Gaiam also expects to distribute 20 million catalogs per year and have approximately 7 million direct customers. The volume increase will allow Gaiam to negotiate better inventory and service pricing to improve margins, and more fully leverage its distribution capacity and overhead to produce better overall financial results.

### Results of Operations

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

12

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	44.5%	53.3%	47.5%	49.8%
Gross profit	55.5%	46.7%	52.5%	50.2%
Expenses:				
Selling and operating	45.4%	48.9%	45.2%	50.8%
Corporate, general and administration	7.1%	8.9%	7.4%	9.6%
Total expenses	52.5%	57.8%	52.6%	60.4%
Income (loss) from operations	2.9%	-11.1%	-0.1%	-10.2%
Other income	0.7%	0.7%	0.4%	0.4%
Income tax expense (benefit)	1.3%	-4.1%	0.0%	-3.7%
Minority interest in net income of consolidated subsidiaries, net of tax	-0.6%	-1.0%	-0.4%	-0.5%
Net income (loss)	1.7%	-7.3%	-0.2%	-6.6%

### Three months ended September 30, 2005 versus September 30, 2004

Revenue of \$30.1 million for the three months ended September 30, 2005 increased 43.4% from \$21 million for the three months ended September 30, 2004. Gaiam’s percentage increase in revenue was contributed equally by the direct to consumer segment, in which revenue increased 43.2% to \$16.2 million, and the business segment, in which revenue increased 43.5% to \$13.9 million. Internal revenue growth was \$1.8 million or 24.4% for the business segment, consisting primarily of increases in mass merchant retailers and bookstores. Internal growth in the direct to consumer segment was 23.4%, resulting in an increase in revenue generated by this segment of \$2.6 million for the three months ended September 30, 2005 as compared to same period in 2004. This was fueled by double digit growth in revenue generated by both our Internet and renewable energy businesses. Revenue generated by media acquired from GoodTimes Entertainment accounted for the balance of the increase in revenues.

Gross profit, which consists of revenue less cost of sales (primarily merchandise acquisition costs and in-bound freight), increased to \$16.7 million for the third quarter of 2005 from \$9.8 million during the same period in 2004. As a percentage of revenue, gross profit for the third quarter of 2005 increased to 55.5% as compared to 46.7% generated in the comparable 2004 period. Virtually all of this improvement was generated by the business segment, where gross profit rose from 41.2% for the third quarter of 2004 to 59.6% in the comparable 2005 period. This improvement is primarily due to higher sales of media and kits containing media, which have significantly higher gross profit margins than accessories.

Selling and operating expenses (which consist primarily of sales and marketing costs, commission and fulfillment expenses) increased 33.2% to \$13.7 million for the three months ended September 30, 2005 as compared to \$10.3 million in the same period of 2004, due primarily to an increase revenue of 43.4% and the additional cost of utilizing a temporary services agreement to utilize the GoodTimes warehousing and distribution center in New Jersey. Inventory purchased from GoodTimes, which is housed at the New Jersey site, is being transferred to Gaiam's warehousing and distribution center in Ohio. Gaiam expects to have transitioned all warehousing and distribution functions to Ohio during the next 90 to 120 days. As a percentage of revenue, selling and operating expenses decreased to 45.4% in 2005 from 48.9% in 2004 as a result of the increase in the sales base.

Corporate, general and administration expenses increased to \$2.2 million for the third quarter of 2005 compared to \$1.9 million for the same 2004 period, primarily due to additional facility and infrastructure expenses associated with establishment of our New York office. As a percentage of revenue, corporate, general and administration expenses decreased to 7.1% in the third quarter of 2005 from 8.9% in the comparable 2004 period, as a result of the aforementioned increase in the sales base.

Gaiam generated operating income of \$878 thousand for the third quarter of 2005 as compared to an operating loss of \$2.3 million in the comparable 2004 period. This improvement is primarily the result of revenue and gross margin increases across all of Gaiam's operations.

13

---

Gaiam recorded \$201 and \$138 thousand in other income for the three months ended September 30, 2005 and 2004, respectively. The share of net income associated with minority interests was \$168 and \$200 thousand for the third quarters of 2005 and 2004, respectively.

Gaiam recorded income tax expense of \$406 thousand for the three months ended September 30, 2005 compared to an income tax benefit of \$856 thousand for the three months ended September 30, 2004. Gaiam's consolidated effective tax rate fluctuates based upon the distribution of earnings/losses between its domestic and foreign operations.

As a result of the factors described above, Gaiam's net income was \$505 thousand, or \$0.03 per share, for the three months ended September 30, 2005, as compared to a net loss of \$1.5 million, or \$0.10 per share, for the three months ended September 30, 2004.

#### Nine months ended September 30, 2005 versus September 30, 2004

Revenues of \$78.2 million for the nine months ended September 30, 2005 increased 26.4% from \$61.8 million for the nine months ended September 30, 2004. Gaiam's increase in revenues was due primarily to an increase in the business segment of \$8.6 million, or 30.6% for the first nine months of 2005. This increase resulted primarily from the efforts of the expanded sales force which resulted in higher sales volumes with mass market retailers and bookstores. Sales of media content acquired in the GoodTimes asset acquisition, coupled with lower product returns also contributed to the increase in revenue. Direct to consumer segment revenues were \$41.5 million for the nine months ended September 30, 2005, compared to \$33.8 million for the same period in 2004. All components of the direct to consumer segment experienced positive growth. For the nine months ended September 30, 2005, the internal growth rates in the business and direct to consumer segments were 24% and 17%, respectively.

Gross profit increased to \$41 million for the first nine months of 2005 from \$31 million during the same period in 2004. As a percentage of revenue, gross profit increased to 52.5% in 2005 from 50.2% in 2004. This was primarily attributable to improved margins in the business segment, where gross profit, as a percentage of revenue, increased from 46% for the first nine months of 2004 to 52.9% for the same period in 2005. This gross profit improvement stems primarily from a increased sales of media and kits containing media, better margins with those accounts that were transitioned to a direct relationship and a reduction in markdowns and product returns which eroded gross margin last year.

Selling and operating expenses increased to \$35.3 million for the nine months ended September 30, 2005 as compared to \$31.4 million in the same period of 2004, primarily resulting from increased sales and marketing efforts which produced revenue increases of over 26% for the first nine months. As a percentage of revenues, selling and operating expenses decreased to 45.2% in 2005 from 50.8% in 2004.

Corporate, general and administration expenses decreased to \$5.8 million for the nine months ended September 30, 2005 from \$5.9 million in the comparable 2004 period, and decreased to 7.4% of revenues in 2005 from 9.6% of revenues in 2004. This expense reduction was generally attributable to cost savings generated by expense reductions in Gaiam's Colorado headquarters, which has been partially offset by the addition of infrastructure costs associated with the opening of office in New York City in September 2005.

Operating losses of \$106 thousand for the nine months ended September 30, 2005 were significantly lower than the \$6.3 million operating loss for the nine months ended September 30, 2004, primarily due to the increase in revenue and gross margin.

Gaiam recorded \$309 thousand and \$270 thousand in other income, primarily from interest income, for the nine months ended September 30, 2005 and 2004, respectively. The share of net income associated with minority interest was \$344 thousand for the first nine months of 2005, compared to the share of net income of \$326 thousand for the comparable 2004 period.

Gaiam recorded income tax expense of \$4 thousand for the nine months ended September 30, 2005 compared to an income tax benefit of \$2.3 million for the nine months ended September 30, 2004.

14

---

As a result of the factors described above, Gaiam's net loss was \$145 thousand for the nine months ended September 30, 2005 compared to a net loss of \$4.1 million recorded for the nine months ended September 30, 2004.

### Liquidity and Capital Resources

Gaiam's capital needs arise from working capital required to fund our operations, capital expenditures related to acquisition and development of media content, development of Internet and new products, acquisitions of new businesses, replacements, expansions and improvements to Gaiam's infrastructure, and future growth. These capital requirements depend on numerous factors, including the rate of market acceptance of Gaiam's product offerings, our ability to expand Gaiam's customer base, the cost of ongoing upgrades to Gaiam's product offerings, our level of expenditures for sales and marketing, our level of investment in distribution systems and facilities and other factors. The timing and amount of these capital requirements are variable and cannot accurately be predicted. Additionally, Gaiam will continue to pursue opportunities to expand our media libraries, evaluate possible investments in businesses, products and technologies, and increase our sales and marketing programs and brand promotions as needed.

Gaiam has a credit agreement with Wells Fargo, which permits borrowings of up to \$15 million based upon the collateral value of Gaiam's accounts receivable and inventory. At September 30, 2005, Gaiam had no amounts outstanding under this agreement and complied with all of the financial covenants. This credit agreement expires on July 31, 2007. Should Gaiam choose to borrow under the credit agreement, outstanding advances bear interest at the lower of prime rate less 50 basis points or LIBO plus 275 basis points. Borrowings are secured by a pledge of Gaiam's assets, and the agreement contains various financial covenants, including covenants prohibiting the payment of cash dividends to Gaiam shareholders and requiring compliance with certain financial ratios.

Gaiam's operating activities generated net cash of \$1.3 million for the nine months ended September 30, 2005, after a \$2.6 million increase in prepaid expense in primarily associated with transition services provided by GoodTimes Entertainment, and \$2.2 million for the comparable 2004 period. Gaiam's net cash generated from operating activities for both periods is primarily attributable to a decrease in accounts receivable of \$2.3 million in 2005 and \$5.9 million in 2004, and non-cash charges to net income of \$2.8 million in 2005 and \$4.1 million in 2004. These sources of funds were partially offset by the use of funds for holiday catalog production costs of \$1.7 million in 2005 and \$1.8 million in 2004, and reductions in accounts payable of \$1.3 million in 2005 and \$1.6 million in 2004.

Gaiam's investing and acquisition activities used net cash of \$39.7 million and \$1.4 million during the first nine months of 2005 and 2004, respectively. During 2005, Gaiam used cash to acquire assets from GoodTimes Entertainment and to fund its investment in LIME Media. In 2005 and 2004, respectively, Gaiam used \$928 thousand and \$1.4 million for the purchase of property, equipment and media rights.

Gaiam's financing activities provided net cash of \$38 million and \$379 thousand for the nine months ended September 30, 2005 and 2004, respectively. On July 7, 2005, we issued and sold 2,821,317 shares of unregistered Class A common stock for an aggregate purchase price of approximately \$18.7 million to certain funds advised by Prentice Capital Management, LP. On August 22, 2005, Gaiam issued and sold 2,500,000 shares of unregistered Class A common stock for an aggregate purchase price of \$20 million to Revolution Living, LLC.

We believe our available cash, cash expected to be generated from operations, cash generated by the sale of unregistered Class A common stock, and borrowing capabilities on our unused \$15 million line of credit, should be sufficient to fund our operations on both a short-term and long-term basis. However, our projected cash needs may change as a result of acquisitions, product development, unforeseen operational difficulties or other factors.

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

---

### Contractual Obligations

Gaiam has commitments pursuant to lease and debt agreements, but does not have any outstanding commitments pursuant to long-term debt obligations, capital lease obligations or purchase obligations. The following table shows our commitments to make future payments under operating leases (in thousands):

	<u>Total</u>	<u>&lt; 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>&gt; 5 yrs</u>
Operating lease obligations	\$ 3,336	\$ 1,291	\$ 1,424	\$ 322	\$ 299

### Off-Balance Sheet Arrangements

Gaiam does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as special purpose entities ("SPEs") or variable interest entities ("VIEs"), which have been established for the purpose of facilitating off-balance sheet arrangements or other limited purposes. As of September 30, 2005, Gaiam is not involved in any unconsolidated SPEs or VIEs.

### Critical Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make judgments, estimates and assumptions that affect the amounts reported in Gaiam's consolidated financial statements and accompanying notes. Note 1 to the consolidated financial statements in Item 8 of our Annual Report on Form 10-K summarizes the significant accounting policies and methods used in the preparation of Gaiam's consolidated financial statements. No changes were made to our significant policies during the three months ended September 30, 2005.

Management believes the following to be critical accounting policies whose application has a material impact on Gaiam's financial presentation, and involve a higher degree of complexity, as they require management to make judgments and estimates about matters that are inherently uncertain.

#### *Provisions for Doubtful Accounts and Returns*

Gaiam records a provision for doubtful accounts for all receivables not expected to be collected. Gaiam generally does not require collateral. Gaiam evaluates the collectibility of accounts receivable based on a combination of factors. In circumstances in which we are aware of a specific customer's inability to meet its financial obligations (e.g. bankruptcy filings); Gaiam records a specific reserve for bad debts against amounts due. For all other instances, Gaiam recognizes reserves based on historical experience and review of individual accounts outstanding.

Gaiam records a provision for product returns to be received in future periods at the time the original sale is recognized. The amount of the returns provision is based upon historical experience and future expectations.

#### *Inventory*

Inventory consists primarily of finished goods held for sale and is stated at the lower of cost (first-in, first-out method) or market. Gaiam identifies the inventory items to be written down for obsolescence based on the item's current sales status and condition. If the item is discontinued or slow moving, it is written down based on an estimate of the markdown to retail price needed to sell through its current stock level of the item.

#### *Goodwill*

Goodwill represents the excess of the purchase consideration over the fair value of assets acquired less liabilities assumed in a business acquisition. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is no longer amortized but is reviewed for impairment annually or more frequently if impairment indicators arise, on a reporting unit level. The fair value of a reporting unit is compared with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired.

If the carrying amount of a reporting unit exceeds its fair value, the goodwill impairment test is performed to measure the amount of impairment loss. Gaiam has allocated goodwill to two reporting units, and uses a market

value method for the purposes of testing for potential impairment. The annual review requires extensive use of financial judgment and estimates. Application of alternative assumptions and definitions, such as a change in the composition of a reporting unit, could yield significantly different results.

#### *Investments*

Investments in entities over which Gaiam does not have the ability to exercise significant influence are accounted for under the cost method. Under the cost method of accounting, investments in private companies are carried at cost and are adjusted only for other-than-temporary declines in fair value. Investments under the cost method are included on the accompanying consolidated balance sheet in "Investments." Had Gaiam concluded that it had the ability to exercise significant influence, its share of the investee's income or loss would have been reported in Gaiam's consolidated statement of operations.

#### *Capitalized Production Costs*

Capitalized production costs include costs incurred to produce informational media products marketed by Gaiam to retail marketers and direct-mail and online customers. These costs are deferred for financial reporting purposes until the media is released, then amortized over succeeding periods on the basis of estimated sales. Historical sales statistics are the principal factor used in estimating the amortization rate.

Gaiam had no significant changes in its critical accounting policies from its Form 10-K filing for the fiscal year ended December 31, 2004.

#### 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, proxy statements, annual reports, registration statements and other written communications, as well as oral forward-looking statements made from time to time by representatives of Gaiam. These risks and uncertainties include, but are not limited to, those listed in Gaiam's Annual Report on Form 10-K for the year ended December 31, 2004. These risks and uncertainties and additional

risks and uncertainties not presently known to us or that we currently deem immaterial may cause our business, financial condition, operating results and cash flows to be materially adversely affected. Except for the historical information contained herein, the matters discussed in this analysis are forward-looking statements that involve risk and uncertainties, including, but not limited to, general economic and business conditions, competition, pricing, brand reputation, consumer trends, and other factors which are often beyond our control. Gaiam does not undertake any obligation to update forward-looking statements except as required by law.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks, which include changes in U.S. interest rates and foreign exchange rates. We do not engage in financial transactions for trading or speculative purposes.

Any borrowings we might make under our bank credit facility would bear interest at the lower of prime rate less 50 basis points or LIBOR plus 275 basis points. Gaiam does not have any amounts outstanding under its credit facility, so any unfavorable change in interest rates would not have a material impact on Gaiam's results from operations or cash flows unless Gaiam makes borrowings in the future.

Gaiam purchases a significant amount of inventory from vendors outside of the U.S. in transactions that are primarily U.S. dollar denominated transactions. Because the percentage of our international purchases denominated in currencies other than the U.S. dollar is small, any currency risks related to these transactions are immaterial to Gaiam. A decline in the relative value of the U.S. dollar to other foreign currencies could, however, lead to increased purchasing costs. In order to mitigate this exposure, Gaiam makes virtually all of its purchase commitments in U.S. dollars.

In 2003, Gaiam purchased a 50.1% interest in Leisure Systems International Limited, a U.K. based distributor. Because Leisure Systems' revenue is primarily denominated in foreign currencies, this investment exposes Gaiam to accounting risk associated with foreign currency exchange rate fluctuations. However, we have determined that no material

market risk exposure to our consolidated financial position, results of operations or cash flows existed as of September 30, 2005.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Gaiam's chief executive officer and chief financial officer conducted an evaluation of the effectiveness of the design and operation of Gaiam's disclosure controls and procedures, as defined in Rules 13a-15(e) and Rule 15d-15(e) under the Exchange Act. Based upon their evaluation as of September 30, 2005, Gaiam's chief executive officer and chief financial officer have concluded that those disclosure controls and procedures are effective.

#### **Changes in Internal Control over Financial Reporting**

No changes in Gaiam's internal control over financial reporting occurred during the quarter ended June 30, 2005 that have materially affected, or are reasonably likely to materially affect, Gaiam's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, Gaiam is involved in legal proceedings that we consider to be in the normal course of business. We do not believe that any of these proceedings will have a material adverse effect on our business.

### **Item 2. Sales of Unregistered Securities and Use of Proceeds**

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Submission of Matters to a Vote of Security Holders.**

None.

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**

a) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

### Signatures

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

Gaiam, Inc.  
(Registrant)  
November 9, 2005

By: /s/ Jirka Rysavy  
Jirka Rysavy  
Chief Executive Officer

By: /s/ Janet Mathews  
Janet Mathews  
Chief Financial Officer

## CERTIFICATION

I, Jirka Rysavy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gaiam, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2005

/s/ Jirka Rysavy  
Jirka Rysavy  
Chairman of the Board and  
Chief Executive Officer

## CERTIFICATION

I, Janet Mathews, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gaiam, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2005

/s/ Janet Mathews  
Janet Mathews  
Chief Financial Officer



**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Gaiam, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2005, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Jirka Rysavy, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2005

/s/ Jirka Rysavy  
\_\_\_\_\_  
Jirka Rysavy  
Chairman of the Board and  
Chief Executive Officer

**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Gaiam, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2005, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Janet Mathews, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2005

/s/ Janet Mathews

Janet Mathews  
Chief Financial Officer