

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES 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 BOULEVARD
BROOMFIELD, CO 80021**

(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:

None

Securities registered pursuant to section 12(g) of the Act:

Class A Common Stock, \$.0001 par value

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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 stock held by non-affiliates of the registrant was approximately \$47,978,906 as of June 30, 2005, based upon the closing price on the NASDAQ National Market on that date. The registrant does not have non-voting common equity.

As of March 6, 2006, 15,020,078 shares of the registrant's \$.0001 par value 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 2006 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.

GAIAM, INC.

Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2005

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FORWARD-LOOKING STATEMENTS

This report contains 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, 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, 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, consumer trends, 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.

PART I

Item 1. Business

OUR BUSINESS

Gaiam is 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 based on these values while providing quality offerings at a price comparable to mainstream alternatives. We market our media and products through a multi-channel approach including traditional media channels, direct to consumers via the Internet, subscription clubs, catalog, and broadband, and through retailers and corporate accounts. At the end of 2005, Gaiam's home media was carried by more than 50,000 retail stores in the United States alone, and Gaiam had approximately 7 million direct buyers.

Gaiam has established itself as a lifestyle media brand, content producer and licensor, information resource and authority in the Lifestyles of Health and Sustainability (LOHAS) market including the emerging "Media that Matters" (MTM) market. Gaiam seeks 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 and lifestyle solutions to consumers in the LOHAS and MTM markets. Our content forms the basis of our proprietary offerings, on which we realize our highest margins, which then drive demand for parallel product and service offerings. Gaiam's operations are vertically integrated from content creation, through product development and sourcing, to customer service and distribution. We market our products and services across two segments, business and direct-to-consumer. We distribute our products in each of these sales segments from a single fulfillment center.

The LOHAS Market

The LOHAS market, which represented \$227 billion in sales according to the 2000 Natural Business Communication study, consists of five main sectors:

- **Sustainable Economy.** Renewable energy, energy conservation, recycled goods, environmental management services, sustainable manufacturing processes and related information and services.
- **Healthy Living.** Natural and organic foods, dietary supplements, personal care products and related information and services.
- **Alternative Healthcare.** Health and wellness solutions and alternative health practices.
- **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.

Gaiam participates in all five sectors of the LOHAS market with an emphasis on Personal Development, Ecological Lifestyles and Alternative Healthcare.

The MTM Market

Gaiam considers the MTM market to consist of four distinct sectors:

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

Our Content

Gaiam's business model revolves around content creation, which forms the basis for our proprietary products. We have an "in house" production team that produces programming, which has won 53 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 at our Colorado facility ensuring the quality standards that drives our awards. We also develop children's programming, which have been the recipient of several Parent's Choice and Kids First Awards recognizing new products that help children grow imaginatively, physically, and mentally. During 2005, we produced 20 new titles and added 800 titles to our DVD library through our acquisition of assets of GoodTimes Entertainment. Gaiam also develops and markets music and audio CDs and publishes printed content.

Our Products

Our visual media programs represent an integral part of our proprietary product offering. We currently stock approximately 10,000 stock keeping units (SKUs), of which approximately 7,000 are branded proprietary offerings, including media, accessories and soft goods. In 2005, our proprietary products constituted over 70% of our product sales.

Our Sales Channels

We conduct our business across two segments. Our business segment customers are primarily national retailers, corporate accounts and the media. We conduct our direct-to-consumer business through our catalogs, the Internet, direct response television and broadband.

- *Media*

Gaiam develops, produces and licenses information and programming targeted to consumers who value personal development, wellness, spirituality and inspirational entertainment. Gaiam has an award-winning library of titles that it sells to retailers, licenses to selected distributors operating outside of the United States, and licenses or sublicenses for broadcast. Our current list of media partners includes Entertainment One, Fit TV, Fine Living, Lime TV, LodgeNet, United Airlines and Kimpton Hotels. All of our licensing arrangements require Gaiam branding to be prominent on the programming and are subject to our royalty agreements with our performing artists. While our licensing of the rights to manufacture and distribute certain of our media lowers recognized revenue, contribution margins and branding are improved.

Gaiam uses 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 creates new Direct customers to which we cross-market a wide range of LOHAS products via our catalog and Internet 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 its breadth and diversity. As of the end of 2005, Gaiam media titles may be found in approximately 50,000 stores in the U.S. alone. Gaiam media and other products are currently sold across a variety of leading retailers, including bookstores such as Barnes & Noble and Borders; media stores such as Best Buy and Blockbuster; lifestyle stores such as Discovery Channel Stores and EQ Life; beauty stores such as Ulta; home furnishing stores such as Bed, Bath and Beyond and ABC Carpet and Home; natural food stores such as Whole Foods Market and Wild Oats; sporting goods stores such as Dick's and REI; mass merchants such as WalMart and Target, our largest customer, 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 utilize custom fixtures designed and produced by Gaiam. We implemented our first store-within-store concept late in 2000 and the concept has grown to over 4,500 stores by the end of 2005.

Through distributor arrangements and acquisitions, Gaiam branded products may now be found in Canada, Japan, Korea, the United Kingdom and Australia. Our media products are sold to international accounts primarily under licensing agreements and the remaining products are sold through distributor relationships. During 2004, Gaiam entered into a joint venture in Australia to bring Gaiam products to consumers through catalogs, internet and Australian retailers commencing in 2005. Our majority owned UK subsidiary changed its name to Gaiam effective March 1, 2005.

- *Services*

Gaiam, through its Design and Consulting division and eco-travel company, Natural Habitat, provides products and services to businesses, corporate accounts, and schools. Clients of our lifestyle services included The White House, NASA, Fetzer Winery, the U.S. Department of Energy, the Government of Brazil, the Smithsonian Institution, and the World Wildlife Fund.

- *Catalogs*

Gaiam offers a variety of LOHAS products directly to the consumer through our catalogs and through some consumer lifestyle publications. We mailed 16 million catalogs in 2005. Our customer demographics are highly regarded with an average income over \$75,000 and over 70% college educated.

- *Internet*

We use the Internet to sell our products and to provide information on the LOHAS lifestyle. We currently offer approximately 7,000 SKUs on our website, www.gaiam.com. We promote our website through our visual media, catalogs, print publications, product packaging and Internet Links. A key component of our Internet approach is to provide customer support for Internet sales from our in-house call center. According to a Jupiter Communications study, 90% of on-line customers prefer human interaction when they require customer service. This is particularly important for Gaiam because the use of many of our products is enhanced by the extensive product education and information that we make available online and through our customer service personnel.

Our Operations

- *Product Development and Sourcing*

Gaiam branded products are sold across our five 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 decide to develop products under the

Gaiam brand and distribute them through our other sales channels. Our products are designed to supply information, enhance customers' lifestyles and experiences and provide healthy, natural solutions while being eco-friendly and promoting a sustainable economy. Because we use a multi-channel approach to our business we are able to leverage our product development costs across all channels of our business.

Our proprietary products are designed by our product development team, sourced both domestically and internationally by our merchandisers and produced by third party suppliers to our specifications. 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*

Gaiam focuses on building and maintaining customer relationships that thrive on loyalty and trust. We maintain a "no-risk guarantee" policy, whereby a customer is provided a full refund for 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 92% 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.

- *Established Infrastructure*

We operate a 350,000 square foot distribution center near Cincinnati, Ohio, which provides fulfillment for most 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 Gaiam and help establish Gaiam as an authority in the LOHAS market. Gaiam's primary focus is on leveraging our content with branded lifestyle product offerings through various 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 will continue to develop authentic content that caters to the LOHAS lifestyle in DVD, book and audio formats and also accelerate our efforts in the broadcast and theatrical categories. We intend to expand our brand to MTM (Media that Matters), which incorporates children's, family, inspirational and edutainment media. We believe we can establish the Gaiam brand as a leading brand in these new media categories.

We have already expanded our visual media offerings internationally and plan to continue to leverage this opportunity. We also intend to broaden the variety of formats we offer, from our traditional "physical media" (DVD, CD, etc), to making our content available online to our consumers in both one-shot "purchase" format and paid monthly/annual subscription services.

- *Capitalize on our market share positioning*

We continue to grow our media market share. Based on Nielsen's Videoscan, Gaiam grew its market share from 15% in 2004 to over 23% in 2005 in the fitness/wellness category. With the acquisition of titles from GoodTimes Entertainment in 2005, Gaiam ended the year with over 40% share in this category. Based on the same Nielsen scanning, Gaiam ended at number 5 in the non-theatrical category and in the top 10 market share for DVDs of all genres. We intend to continue to grow our market share in the non-theatrical category through the production and acquisition of titles along with our growth in the retail sector.

- *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. Gaiam is establishing itself as a brand in MTM and

wellness/fitness media 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 the Gaiam brand instead of the traditional studio or distributor model.

We continue to improve margins as we are able to serve the large retailers directly instead of going through third party distributors allowed by the GoodTimes asset acquisition and the increased sales volume of Gaiam media. Since the GoodTimes transaction, we have been able to go directly to retailers like Wal-Mart and Kmart that were serviced by third party distributors prior to the acquisition.

We launched a continuity and subscription club business in second quarter of 2005 which was augmented with the acquired business of GoodTimes Entertainment. These businesses carry over 85% gross margin and connect our media content directly to the consumer. We expect 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.

We expect to grow our international business through licensing arrangements that carry low cost of goods. We have a valuable library of branded products that is not being currently monetized with the exception of the UK. We have recently hired personnel familiar with international licensing who will lead this initiative.

- *Strengthen our Lifestyle Brand*

Our goal is to maintain the Gaiam brand as an authority in the LOHAS market (including MTM) and to establish Gaiam as a unifying symbol of the emerging LOHAS lifestyle. All of our proprietary products are being marketed under the Gaiam brand (except for recent acquisitions). We plan to strengthen the Gaiam brand by growing our media, making the Gaiam brand more prominent across our catalog efforts, focusing on category management initiatives, increasing our store-within-store presence across national retailers, increasing our marketing and PR efforts, and aggressively developing and marketing proprietary products while maintaining our high level of customer service.

- *Launch a Mass Market Brand in Fitness*

We expect to launch mass market media and products in fitness under “The Firm” brand. We believe that the aging baby boomers at all income levels will be looking for fitness/wellness products. We do not market the Gaiam brand except in media in certain channels and believe there is growth opportunity for us in those channels under a different brand with the same attention to quality that we have at Gaiam. We will support the mass market brand through DRTV dollars.

- *Expand our Proprietary Products*

Our proprietary products, which we introduced in 1997, represented over 70% of our revenues in fiscal year 2005. 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 bedding and bath products. We have also expanded our exclusive media library to over 2000 titles through our acquisition of the assets of GoodTimes Entertainment. 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 MTM market. We are strengthening our supply chain globally by sourcing a greater number of products offshore and leveraging our expanding media sales to acquire 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 the ability to allow 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,” whether those are DVD-based, or 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 over 7,000 products on our Internet site. As we increase the depth of media and community functionality available to our consumers, our internet presence will transform from being merely a place to “order” product to a place to “consume” it, in real-time.

In our business segment, we continue to expand our presence in national retailers and currently have placements in approximately 50,000 retail points up from 25,000 at the end of 2004. We also continue to expand our store-within-store concept in a variety of stores, including Whole Foods Market, Barnes & Noble Bookstores, Borders, Target, Ulta, Dick’s Sporting Goods, REI, ABC Carpet and Home and other national retailers.

- *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, and expand our geographical reach. We especially focus on companies with media content, a strong brand identity and customer and product information databases that augment our existing databases. Gaiam often allows 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 Gaiam's existing infrastructure when economies of scale can be realized.

- *Establish a lifestyle online community*

In 2006, Gaiam plans to expand its online community efforts, with specific focus on the core tenets of the LOHAS lifestyle: personal development, healthy living, spirituality, alternative healthcare, and the sustainable economy. Gaiam already works with the leading experts in these fields to produce our current suite of media offerings. In 2006, we will launch the online "space" for our customers to come together with each other and with Gaiam's cadre of experts in these core LOHAS areas, to share ideas, discuss new trends and solutions, and allow our customers have access to world-class resources to deepen their understanding of issues that are central to how they choose to live their lives. The communities will take the form of online discussions, and a wealth of video, audio, and written-word content, available both real-time and on-demand.

Our Business Segments

We separate our business into two business segments: the business segment which includes sales to businesses, retailers, corporate accounts and media outlets; and the direct-to-consumer segment, which includes catalogs, print advertising, and E-commerce.

The business segment represented 49% of 2005 revenues, while the direct to consumer segment represented 51% of revenues. See Note 10 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 Competitive Position

We believe that fragmented supplier and distribution networks characterize the LOHAS market, and we are not aware of a dominant leader. Gaiam's goal is to establish itself as the market leader.

Our business is evolving and competitive. Larger and better-established entities may acquire, invest in or form joint ventures with our competitors. Many of these entities have longer operating histories and have greater financial and marketing resources than we have. Increased competition from these or other competitors could

reduce our revenue and profits. In addition, the smaller businesses we compete against may be able to more effectively personalize their relationships with customers.

Because Gaiam uses multi-channel distribution for our products, we compete with various producers of similar products and services. Our competitors include Warner Bros., Disney, Paramount, Fox, Anchor Bay, Inspired Entertainment, Goldhill Media, Nike, Reebok, thousands of small, local and regional businesses, and product lines or items offered by large retailers, manufacturers, publishers and media producers.

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.

We expect industry consolidation to increase competition. As our competitors grow, they may adopt aggressive pricing or inventory policies, which could result in reduced operating margins and loss of market share.

Our success also depends upon the willingness of consumers to purchase media, goods and services that promote the values we espouse. While we believe our business plan and assumptions are reasonable, the demographic trends on which they are based may change and the current consumption levels may not be sustained. The decrease of consumer interest in purchasing goods and services that promote the values we espouse would materially and adversely affect our customer base and revenues and, accordingly, our financial prospects.

Our Employees

As of March 1, 2006, Gaiam and the Gaiam companies employed approximately 367 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 Gaiam to generate additional names for its direct marketing, and restrict our ability to send unsolicited electronic mail or printed materials. Although Gaiam believes it is 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.

The Gaiam companies generally collect sales taxes only on sales to residents of states in which Gaiam has locations. Currently, Gaiam collects sales taxes on sales to residents of California, Colorado, New York and Ohio. A number of legislative proposals have been made at the federal, state and local level, and by foreign governments, that would impose additional taxes on the sale of goods and services over the Internet and certain states have taken measures to tax Internet-related activities. If legislation is enacted that requires Gaiam to collect sales taxes on sales to residents of other states or jurisdictions, sales in our direct-to-consumer businesses may be adversely affected.

Our business is also subject to a number of other governmental regulations, including the Mail or Telephone Order Merchandise Rule and related regulations of the Federal Trade Commission. These regulations prohibit unfair methods of competition and unfair or deceptive acts or practices in connection with mail and telephone order sales and require sellers of mail and telephone order merchandise to conform to certain rules of conduct with respect to shipping dates and shipping delays. We are also subject to regulations of the U.S. Postal Service and various state and local consumer protection agencies relating to matters such as advertising, order solicitation, shipment deadlines and customer refunds and returns. In addition, merchandise imported by Gaiam 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 provides information about Gaiam, its history, goals and philosophy, as well as certain financial reports and corporate press releases. Our 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. Those reports are 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, but are not limited to, those risks described below. Additional risks and uncertainties not presently known to us or those we currently deem immaterial also may impair our business operations, and 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

Our results of operations could be impacted by changes in overall economic conditions that impact consumer spending. Future economic conditions affecting disposable income such as employment levels, consumer confidence, 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 has 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, within each merchandise 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

Our business is targeted at consumers who assign high value to personal development, healthy lifestyles, responsible media, renewable energy and the environment. A decrease of consumer interest in purchasing goods and services that promote the values we espouse would materially and adversely affect our customer base and sales revenues and, accordingly, our financial prospects. Further, consumer preferences and product trends are difficult to predict. Our future success depends in part on our ability to anticipate and respond to changes in consumer preferences and we may not respond in a timely or commercially appropriate manner to such changes. Failure to anticipate and respond to changing consumer preferences and product trends could lead to, among other things, lower sales of our products, increased merchandise returns and lower margins, which would 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 us 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.

Acquisitions may harm our financial results

Acquisitions have been part of our growth and may continue to be part of our growth in the future. Our acquisitions may be of entire companies, certain assets of companies, controlling interests in companies or of minority interests in companies where we intend to invest as part of a strategic alliance. If we are not successful in integrating companies that we acquire or are not able to generate adequate sales from the acquired entities, our business could be materially and adversely affected.

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 chief executive officer Jirka Rysavy controls Gaiam

Mr. Rysavy holds 100% of Gaiam's 5,400,000 outstanding shares of class B common stock and also owns 1,664,000 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 is able to vote a majority of our stock, and will be able to exert substantial influence over Gaiam and to control matters requiring approval by the shareholders of Gaiam, including the election of directors, increasing our authorized capital stock, or a merger or sale of our assets. As a result of Mr. Rysavy's control, no change of control of Gaiam can occur without Mr. Rysavy's consent. In 2005, Mr. Rysavy entered into certain agreements with Revolution Living, LLC and its founder, Steve Case that could have a negative impact on Gaiam. In 2005, Gaiam recorded a \$646 thousand expense for its share of losses at Revolution Living's LIME Media.

Our success depends on the value of the Gaiam brand

Because of our reliance on sales of proprietary products, our success depends on the Gaiam brand. Building and maintaining recognition of the Gaiam brand are important to attracting and expanding our customer base. If the value of the Gaiam 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.

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 we do not have rights to use media content and other disputes arising from such arrangements can be costly and may have a material adverse impact on our results.

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 the Gaiam brand, and meet certain pricing guarantees. Our sourcing of these products overseas continues to increase, and these arrangements carry risks associated with relying on 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 increase their sales to us or to meet our needs for increased commitments from them. The failure of our suppliers to provide sufficient quantities of our proprietary products could decrease our revenues, increase our costs, and damage our customer service reputation.

We rely on communications and shipping networks to deliver our products

Given our emphasis on customer service, the efficient and uninterrupted operation of order-processing and fulfillment functions is critical to our business. To maintain a high level of customer service, we rely heavily on a number of different outside service providers, such as printers, telecommunications companies and delivery companies. Any interruption in services from our principal outside service providers, including delays or disruptions resulting from labor disputes, power outages, human error, adverse weather conditions or natural disasters, could materially adversely affect our business. In addition, products that we source overseas must be shipped to our distribution center by freight carriers, 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 SKU (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.

Additionally, our success in E-commerce will depend 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.

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 prevent all security breaches.

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

We support most of our business through our call center in Broomfield, 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 website

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 website. If we are held liable for damages for the content on our website, our business may suffer. Further, one of our goals is for www.gaiam.com to be a trustworthy and dependable provider of information and services. Allegations of impropriety, even if unfounded, could therefore have a material adverse effect on our reputation and our business.

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 would 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 Broomfield, Colorado. Our fulfillment center is located in the Cincinnati, Ohio area. This facility houses most of our fulfillment functions. We selected the Cincinnati site after considering the availability and cost of facilities and labor, proximity to major highways, air delivery hubs and support of local government of new businesses. We also believe that Cincinnati is ideal for providing the low cost shipping available from a single central point to a customer base that conforms to the overall U.S. population.

The following table sets forth certain information relating to our primary facilities:

<u>Primary Locations</u>	<u>Size</u>	<u>Use</u>	<u>Lease Expiration</u>
Broomfield, CO	36,000 sq. ft.	Headquarters and customer service	May 2008
Cincinnati, OH	355,000 sq. ft.	Fulfillment center	September 2007
New York, NY	18,400 sq. ft.	Media office	January 2009

Hopland, CA	12 acres	Renewable energy demo site	Owned
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We have options to renew the leases for our headquarters and our fulfillment center. We believe our facilities are adequate to meet our current needs and that suitable additional facilities will be available for lease or purchase when, and as, we need them.

Item 3. Legal Proceedings

From time to time, 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 4. Submission of Matters to a Vote of Security Holders

No matters were brought to a vote of our shareholders in the fourth quarter of the fiscal year ended December 31, 2005.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Price History

Gaiam's Class A common stock has been quoted on the NASDAQ under the symbol "GAIA" since our initial public offering on October 29, 1999. On March 6, 2006, we had 8,173 shareholders of record and 15,020,078 shares of \$.0001 par value Class A common stock outstanding. We have 5,400,000 shares of \$.0001 par value Class B common stock outstanding, held by one shareholder.

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

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	High Bid	Low Bid	Close	Average Daily Volume
Fiscal 2005:				
Fourth Quarter	\$ 14.90	\$ 9.12	\$ 13.51	62,735
Third Quarter	\$ 11.05	\$ 6.90	\$ 10.32	33,038
Second Quarter	\$ 7.19	\$ 5.35	\$ 6.96	4,270
First Quarter	\$ 6.25	\$ 5.17	\$ 5.54	9,587
Fiscal 2004:				
Fourth Quarter	\$ 6.20	\$ 4.85	\$ 6.15	18,334
Third Quarter	\$ 7.39	\$ 5.26	\$ 5.97	9,001
Second Quarter	\$ 7.25	\$ 5.39	\$ 6.78	16,598
First Quarter	\$ 6.04	\$ 5.13	\$ 5.57	13,850

Dividend Policy

Gaiam has never declared or paid any cash dividends on its capital stock. Gaiam currently intends to retain earnings to support its growth strategy and does not anticipate paying cash dividends in the foreseeable future. In addition, our bank line of credit agreement prohibits payment of any dividends to our shareholders. As of December 31, 2005, Gaiam had no outstanding advances under the line of credit agreement.

Sales of Unregistered Securities

In December 2005, Gaiam, Inc. issued 146,667 shares of Class A common stock to a Conscious Media shareholder to purchase shares of Conscious Media, Inc. These shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933.

Issuer Purchases of Equity Securities

We did not purchase any of our equity securities during the fourth quarter of the fiscal year ended December 31, 2005.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	1,504,564	\$ 7.74	307,792
Equity compensation plans not approved by			

security holders			
Total	1,504,564	\$ 7.74	307,792

Item 6. Selected Financial Data

The selected statement of operations for the years ended December 31, 2005, 2004 and 2003 and balance sheet data as of December 31, 2005 and 2004 set forth below are derived from Gaiam's audited consolidated financial statements which are included elsewhere in this Form 10-K. The selected statement of operations for the years ended December 31, 2002 and 2001 and balance sheet data as of December 31, 2003, 2002 and 2001 set forth below are derived from Gaiam's audited consolidated financial statements which are not included in this Form 10-K. The historical operating results are not necessarily indicative of the results to be expected for any other period. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Gaiam's consolidated financial statements and related notes, included elsewhere in this Form 10-K.

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GAIAM, INC. SELECTED FINANCIAL DATA

(Amounts in thousands, except per share data)

	Year Ended December 31,				
	2005	2004	2003	2002	2001
Statement of Operations Data					
Net revenues	\$ 142,492	\$ 96,657	\$ 102,000	\$ 111,406	\$ 98,737
Cost of goods sold	61,977	48,646	48,927	45,475	39,276
Gross profit	80,515	48,011	53,073	65,931	59,461
Selling, operating, general and administrative expenses	77,429	54,301	54,355	57,180	52,849
Operating income (loss)	3,086	(6,290)	(1,282)	8,751	6,612
Other income (loss)	(175)	109	546	(261)	346
Income (loss) before income taxes and minority interest	2,911	(6,181)	(736)	8,490	6,958
Income tax (benefit) expense	974	(2,440)	(461)	3,002	2,498
Minority interest in net income of consolidated subsidiary, net of tax	(601)	(897)	(697)	(40)	(404)
Net income (loss)	\$ 1,336	\$ (4,638)	\$ (972)	\$ 5,448	\$ 4,056
Net income (loss) per share:					
Basic	\$ 0.08	\$ (0.32)	\$ (0.07)	\$ 0.39	\$ 0.33
Diluted	\$ 0.08	\$ (0.32)	\$ (0.07)	\$ 0.38	\$ 0.32
Shares outstanding:					
Basic	17,140	14,684	14,594	14,107	12,396
Diluted	17,354	14,684	14,594	14,489	12,809
	December 31,				
	2005	2004	2003	2002	2001
Balance Sheet Data					
Cash	\$ 15,028	\$ 10,439	\$ 8,384	\$ 11,422	\$ 22,244
Working capital	37,216	31,488	29,531	33,944	41,403
Total assets	156,101	88,287	91,860	91,167	87,884
Long-term debt (net of current maturities)	—	—	—	55	238
Stockholders' equity	107,286	66,346	69,485	69,371	58,633

Item 7. 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 consolidated financial statements and related notes included elsewhere in this document. This section is designed to provide information that will assist readers in understanding Gaiam's consolidated financial statements, changes in certain items in those statements from year to year, the primary factors that caused those changes and how certain accounting principles, policies and estimates affect the consolidated financial statements.

Overview and Outlook

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

With the inception of our business segment in 1998, Gaiam started to sell directly to retailers, both domestically and abroad, and Gaiam's products are now available in over 50,000 doors. 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 4,500 stores. In 2004, revenue in this segment was \$44.2 million. In 2005, revenue generated in this segment grew to \$70.1 million, as a result of revenue generated by acquisitions and acquired assets combined with a 21% internal growth rate.

The direct to consumer segment continues to be an integral part of Gaiaam's core and has expanded to include greater reach through new club and membership programs and initiatives. This segment accounted for approximately \$52.4 million of Gaiaam's revenue during 2004. During 2005, revenue generated by internal growth of 17% in this segment and the expansion into DRTV, club and membership programs brought the total revenue generated by this segment to \$72.3 million, or 51% 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 Gaiaam's and the LOHAS (Lifestyles of Health and Sustainability) industry's focus and future.

During 2005, Gaiaam completed several acquisitions targeted towards expanding and enhancing our media content and reach. In August 2005, Gaiaam acquired a minority interest in Revolution Living's LIME Media, and, in December 2005, acquired additional shares in Conscious Media, Inc., bringing its total ownership to 51.3%. In September 2005, Gaiaam acquired the majority of the assets of GoodTimes Entertainment and certain of its affiliates. GoodTimes Entertainment's assets included entertainment programming, fitness media and accessories, and home video products distributed through various channels, including television, retailers and the Internet. GoodTimes Entertainment's library contained wellness franchises such as The Firm and Tae Bo, children classics and theatrical releases.

We believe our growth will be driven by content, which is delivered in a variety of media formats, and through broadcast, Internet, retailers, international licensing, and electronic and traditional paper delivery systems. Gaiaam has increased its focus on its media content creation and distribution, which strategically provides increased branding opportunities, significantly higher operating contribution and greater mainstream penetration. With the completion of these acquisitions and continued expansion and improvements in Gaiaam's core businesses, Gaiaam currently expects to generate over \$200 million in annual revenue during 2006. The volume increase will not only allow Gaiaam to achieve greater reach, it will also allow Gaiaam 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.

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 Gaiaam's consolidated financial statements and accompanying notes. Note 1 to the consolidated financial statements in Item 8 of this Form 10-K summarizes the significant accounting policies and methods used in the preparation of Gaiaam's consolidated financial statements.

Management believes the following to be critical accounting policies whose application has a material impact on Gaiaam'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

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

Gaiaam 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. Gaiaam 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. Gaiaam 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 corporations over which Gaiam does not have the ability to exercise significant influence, and in which Gaiam has a less than twenty percent ownership interest, 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 in limited liability companies in which Gaiam does not have the ability to exercise significant influence or control, and in which it holds a five percent or more membership interest, are accounted for under the equity method. Under the equity method, Gaiam records its share of the income or losses of the investment by increasing or decreasing the carrying value of its investment and recording the income or expense through the consolidated statement of operations. Investments under the cost and equity methods are included on the accompanying consolidated balance sheet in "Investments."

Capitalized Production Costs and Media Library

Capitalized production costs include costs incurred to produce media products marketed by Gaiam to retailers 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's media library consists of titles and content purchased or acquired. At acquisition, the fair market value of the library is established and is amortized over succeeding periods on the basis of its estimated useful life.

Gaiam has not had any significant changes in its critical accounting policies from its Form 10-K filing for the fiscal year ended December 31, 2004.

Results of Operations

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

	For the Year Ended December 31,		
	2005	2004	2003
Net revenue	100.0%	100.0%	100.0%
Cost of goods sold	43.5%	50.3%	48.0%
Gross profit	56.5%	49.7%	52.0%
Expenses:			
Selling and operating	47.5%	47.7%	44.3%
Corporate, general and administrative	6.9%	8.5%	9.0%
Total expenses	54.3%	56.2%	53.3%
Income (loss) from operations	2.2%	-6.5%	-1.3%
Other income (expense), net	-0.1%	0.1%	0.6%
Income (loss) before income taxes and minority interest	2.0%	-6.4%	-0.7%
Income tax (benefit) expense	0.7%	-2.5%	-0.5%
Minority interest in net (income) loss of consolidated subsidiary, net of tax	-0.4%	-0.9%	-0.7%
Net income(loss)	0.9%	-4.8%	-0.9%

Year ended December 31, 2005 compared to year ended December 31, 2004

Revenue of \$142.5 million during 2005 was 47% higher than the \$96.7 million in revenue generated in 2004. Gaiam's increase in revenue primarily resulted from increased sales volume from content acquired in the GoodTimes asset acquisition, which was coupled with a 19% internal growth rate. Revenue in Gaiam's direct to consumer segment was \$72.3 million in 2005, an increase of \$19.9 million or 38% over 2004 revenue of \$52.4 million, primarily resulting from the advent of club, membership and DRTV revenue, in addition to a 17% internal growth rate in the core components. Gaiam's business segment generated positive internal growth of 21% for the year, and, including revenue generated by acquisitions, increased the total revenue generated by this segment by 58.6% to \$70.2 million in 2005 from \$44.2 million in 2004.

Gross profit, which consists of revenue less cost of sales (primarily merchandise cost plus inbound freight and duties), increased to \$80.5 million for 2005 from \$48 million during 2004. As a percentage of revenue, gross profit increased 680 basis points to 56.5% in 2005 from 49.7% in 2004. This was primarily attributable to a sales mix change favoring media, on which Gaiam generates significantly higher gross margins, and the cessation of markdowns and other costs associated with the format change from VHS to DVD which adversely affected 2004 results. Gross profit was also favorably impacted by improved pricing on DVDs associated with the higher volume, and new direct to retailer access, rather than the use of third party distributors, on several new key accounts. These improvements had the greatest impact on the business segment, as gross profit for this segment improved to 57.3% in 2005 from 45.6% in 2004. The direct to consumer segment also improved, as the gross profit in this segment increased to 55.7% in 2005, up from 53.1% in 2004.

Selling and operating expenses increased to \$67.6 million for 2005 compared to \$46.1 million in the same period of 2004, primarily resulting from increased sales and operating expenses to support the revenue increases described above, and transition expenses associated with the GoodTimes asset acquisition. As a percentage of revenue, selling and operating expenses decreased to 47.5% in 2005

from 47.7% in 2004 due to higher revenue base.

Corporate, general and administration expenses increased to \$9.8 million in 2005 from \$8.2 million in 2004, but decreased significantly to 6.9% of revenue in 2005 from 8.5% of revenue in 2004. This expense increase primarily resulted from increased facilities, systems and other infrastructure costs associated with the acquired assets and increased business volume.

As a result of the above factors, Gaiam generated \$3.1 in income from operations, or 2.2% of revenue, during 2005, as compared to a \$6.3 million operating loss in 2004, which was 6.5% of revenue.

Gaiam recorded \$175 thousand in other expense during 2005 and \$109 thousand in other income during 2004. In August 2005, Gaiam acquired a 19.9% interest in Revolution Living's LIME Media, and recorded a one-time \$646 thousand loss on this investment for the period from August 22, 2005 through December 31, 2005. This loss was partially offset by interest income of \$358 thousand for 2005. During 2004, Gaiam generated \$160 thousand in interest income. The share of net income associated with minority interest in consolidated subsidiaries was \$601 thousand in 2005, compared to the share of net income of \$897 thousand for the comparable 2004 period.

Gaiam recorded an income tax expense of \$974 thousand for 2005 compared to an income tax benefit of \$2.4 million in 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 improved its financial performance over 2004. In 2005, Gaiam produced net income of \$1.3 million, or \$0.08 per share, as compared to a net loss in 2004 of \$4.6 million or \$0.32 per share.

Year ended December 31, 2004 compared to year ended December 31, 2003

Revenue of \$96.7 million during 2004 was 5.2% lower than the \$102 million in revenue generated in 2003. Gaiam's decrease in revenue was due to lower revenues from the business segment of \$7.3 million, or 13.6%, as compared to fiscal year 2003. This shortfall resulted from lower sales volume in the U.S. and Canadian trade business, where net media revenue before markdowns, particularly those associated with lower sales and returns attributable to the change out of VHS format for DVD format, dropped by over 26% as compared to the previous year. Additionally, revenue generated by the U.S. business segment was adversely impacted by markdowns given to incent sell-through of VHS tapes and kits containing VHS media, and markdowns given to Target associated with sell-through of products to prepare for an expansion of Gaiam's shelf space, which took place at the end of September 2004. Direct to consumer segment revenues increased 3.9% to \$52.4 million for 2004, compared to \$50.5 million for the same period in 2003. Internal revenue growth in our Internet businesses continued to be strong at 21%, while our international business posted internal growth of 16% for 2004.

Gross profit, which consists of revenue less cost of sales decreased to \$48 million for 2004 from \$53.1 million during 2003. As a percentage of revenue, gross profit declined to 49.7% in 2004 from 52% in 2003. This was primarily attributable to a decline in the business segment gross profit from 49.7% in 2003 to 45.6% in 2004. This decline in the business segment gross margin was primarily due to markdowns, inventory write-offs and valuation reserves, and other expenses incurred with the changeover from VHS to DVD products. Gross profit by product line increased, particularly in accessories, but the weighted product revenue mix change from media to accessories resulted in lower overall gross margins. This was partially offset by a favorable change in sales mix from the business segment to the direct to consumer segment, where Gaiam has better overall margins.

Selling and operating expenses increased to \$46.1 million for 2004 as compared to \$45.2 million in the same period of 2003, primarily resulting from increased sales and marketing efforts in our direct to consumer segment to support the revenue increases described above, and expenses associated with doubling the business segment sales force. As a percentage of revenue, selling and operating expenses increased to 47.7% in 2004 from 44.3% in 2003 due to a combination of revenue contraction and higher direct to consumer segment spending.

Corporate, general and administration expenses decreased to \$8.2 million in 2004 from \$9.2 million in 2003, and decreased to 8.5% of revenue in 2004 from 9% of revenue in 2003. This expense reduction was generally attributable to cost savings negotiated with service providers and other savings generated by the consolidation of administrative services into Gaiam's Colorado headquarters.

Operating losses increased to \$6.3 million in 2004 from \$1.3 million in 2003, primarily due to revenue decreases.

Gaiam recorded \$109 thousand and \$546 thousand in other income in 2004 and 2003, respectively, primarily from interest income in 2004 and a gain on the purchase of stock rights plus interest income in 2003. The share of net income associated with minority interest in consolidated subsidiaries was \$897 thousand in 2004, compared to the share of net income of \$697 thousand for the comparable 2003 period.

Gaiam recorded an income tax benefit of \$2.4 million for 2004 compared to an income tax benefit of \$461 thousand 2003. 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 loss was \$4.6 million for 2004 compared to a net loss of \$972 thousand recorded for 2003.

Quarterly and Seasonal Fluctuations

The following table sets forth our unaudited quarterly results of operations for each of the quarters in 2005 and 2004. In management's opinion, this unaudited financial information includes all adjustments, consisting solely of normal recurring accruals and adjustments, necessary for a fair presentation of the results of operations for the quarters presented. This financial information should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Form 10-K. The results of operations for any quarter are not necessarily indicative of future results of operations.

	Fiscal 2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenue	\$ 26,324	\$ 21,706	\$ 30,139	\$ 64,322
Gross profit	13,749	10,557	16,713	39,496
Operating income (loss)	287	(1,271)	878	3,193
Net income (loss)	116	(766)	505	1,481
Diluted net income (loss) per share	\$ 0.01	\$ (0.05)	\$ 0.03	\$ 0.07
Weighted average shares outstanding-diluted	14,820	14,820	18,892	20,595

	Fiscal 2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenue	\$ 23,775	\$ 17,031	\$ 21,023	\$ 34,828
Gross profit	12,676	8,540	9,827	16,968
Operating income (loss)	(329)	(3,634)	(2,324)	(3)
Net income (loss)	(329)	(2,215)	(1,530)	(564)
Diluted net income (loss) per share	\$ (0.02)	\$ (0.15)	\$ (0.10)	\$ (0.04)
Weighted average shares outstanding-diluted	14,615	14,686	14,712	14,723

Note: The aggregate of certain of the above amounts differs from that reported for the full fiscal year due to the effects of rounding.

Quarterly fluctuations in Gaiam's revenues and operating results are due to a number of factors, including the timing of new product introductions and mailings to customers, advertising, acquisitions (including costs of acquisitions and expenses related to integration of acquisitions), competition, pricing of products by vendors and expenditures on our systems and infrastructure. The impact on revenue and operating results due to the timing and extent of these factors can be significant. Our sales are also affected by seasonal influences. On an aggregate basis, Gaiam generates its strongest revenues and net income in the fourth quarter due to increased holiday spending.

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 (including broadband, subscription clubs and online community), 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 December 31, 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 \$6.7 million and \$3.1 million in 2005 and 2004, respectively. Gaiam's net cash generated from operating activities in 2005 was primarily attributable to net income and non-cash expenses of \$6.4 million. The use of cash to fund the growth in accounts receivable resulting from increased sales volume was offset by the growth in accounts payable. Gaiam's net cash generated from operating activities in 2004 was primarily attributable to a decrease in accounts receivable of \$2.6 million along with non-cash

charges of \$5.1 million in 2004, which was partially offset by an increase in deferred advertising costs associated with earlier distribution

of our spring catalogs.

Gaiam's investing and acquisition activities used net cash of \$40.4 million and \$1.6 million for 2005 and 2004, respectively. During 2005, Gaiam used cash to acquire assets from GoodTimes Entertainment and to fund Gaiam's investment in LIME Media. In 2005 and 2004, Gaiam used \$1.6 million in both years for the purchase of property, equipment and media rights.

Gaiam's financing activities generated net cash of \$38.7 million and \$372 thousand for 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. The remaining 2005 and the 2004 cash generated by financing activities resulted primarily from the exercise of stock options under Gaiam's 1999 Long Term Incentive Program.

We believe our available cash, cash expected to be generated from operations, 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 or purchase obligations. The following table shows our commitments to make future payments under operating and capital leases (in thousands):

	<u>Total</u>	<u>< 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>> 5 yrs</u>
Operating lease obligations	\$ 7,030	\$ 2,861	\$ 3,562	\$ 348	\$ 259

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 December 31, 2005, Gaiam is not involved in any unconsolidated SPEs or VIEs.

Item 7A. 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 line, 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 Gaiam Limited, formerly known as Leisure Systems International Limited, a U.K. based distributor. Because Gaiam Limited's revenues are primarily denominated in foreign currencies, this investment exposes Gaiam to accounting risk associated with foreign currency exchange rate fluctuations. However, we have determined that there was no material market risk exposure to our consolidated financial position, results of operations or cash flows as of December 31, 2005.

Item 8. Financial Statements and Supplementary Data

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[Report of Independent Registered Public Accounting Firm](#)

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[Financial Statement Schedule:](#)

[Schedule II – Valuation and Qualifying Accounts](#)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Gaiam, Inc.
Broomfield, Colorado

We have audited the accompanying consolidated balance sheets of Gaiam, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2005. Our audits also included the financial statement schedule II for the years ended December 31, 2005 and 2004. We also have audited management's assessment, included in the accompanying Managements' Report on Internal Control over Financial Reporting included in Item 9A, that Gaiam, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005 and 2004, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Criteria"). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gaiam, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule II for the years ended December 31, 2005 and 2004, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Also in our opinion, management's assessment that Gaiam, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005 and 2004, is fairly stated, in all material respects, based on the COSO Criteria. Furthermore, in our opinion, Gaiam, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005 and 2004, based on the COSO Criteria.

Ehrhardt Keefe Steiner & Hottman PC

March 15, 2006
Denver, Colorado

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Gaiam, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Gaiam, Inc. (the Company) for the year ended December 31, 2003. Our audit also included the financial statement schedule II. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Gaiam, Inc. for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Denver, Colorado
February 19, 2004

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

	December 31,	
	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 15,028	\$ 10,439
Accounts receivable, net of allowance for doubtful accounts of \$761 in 2005 and \$642 in 2004	28,067	14,033
Inventory, less allowances	20,792	16,503
Deferred advertising costs	3,917	2,635
Deferred tax assets	3,627	4,026
Other current assets	4,838	1,324
Total current assets	<u>76,269</u>	<u>48,960</u>
Property and equipment, net	9,428	7,857
Investments	6,822	7,865
Media library, net	38,339	10,884
Non-current deferred tax assets	7,282	2,657
Goodwill and other intangibles	17,541	9,757
Other assets	420	307
Total assets	<u>\$ 156,101</u>	<u>\$ 88,287</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 25,843	\$ 12,910
Accrued liabilities	12,649	3,698
Other current liabilities	561	864
Total current liabilities	<u>39,053</u>	<u>17,472</u>
Long-term liabilities	1,663	—
Total liabilities	<u>40,716</u>	<u>17,472</u>

Minority interest	8,099	4,469
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 15,010,736 and 9,411,897 shares issued and outstanding at December 31, 2005 and 2004, respectively	1	1
Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 shares issued and outstanding at December 31, 2005 and 2004	1	1
Additional paid-in capital	95,840	54,933
Accumulated other comprehensive income	264	850
Retained earnings	11,180	10,561
Total stockholders' equity	<u>107,286</u>	<u>66,346</u>
Total liabilities and stockholders' equity	<u>\$ 156,101</u>	<u>\$ 88,287</u>

See accompanying notes to the consolidated financial statements.

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

	Years ended December 31,		
	2005	2004	2003
Net revenue	\$ 142,492	\$ 96,657	\$ 102,000
Cost of goods sold	61,977	48,646	48,927
Gross profit	<u>80,515</u>	<u>48,011</u>	<u>53,073</u>
Expenses:			
Selling and operating	67,639	46,060	45,184
Corporate, general and administration	9,790	8,241	9,171
Total expenses	<u>77,429</u>	<u>54,301</u>	<u>54,355</u>
Income (loss) from operations	3,086	(6,290)	(1,282)
Other income (expense)	(533)	(51)	472
Interest income	358	160	74
Other income (expense)	<u>(175)</u>	<u>109</u>	<u>546</u>
Income (loss) before income taxes and minority interest	2,911	(6,181)	(736)
Income tax expense (benefit)	974	(2,440)	(461)
Minority interest in net income of consolidated subsidiaries, net of income taxes	<u>(601)</u>	<u>(897)</u>	<u>(697)</u>
Net income (loss)	<u>\$ 1,336</u>	<u>\$ (4,638)</u>	<u>\$ (972)</u>
Net income (loss) per share:			
Basic	\$ 0.08	\$ (0.32)	\$ (0.07)
Diluted	\$ 0.08	\$ (0.32)	\$ (0.07)
Shares used in computing net income (loss) per share:			
Basic	17,140	14,684	14,594
Diluted	17,354	14,684	14,594

See accompanying notes to the consolidated financial statements.

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GAIAM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

Class A Common Stock	Class B Common Stock	Additional Paid-In	Deferred	Accumulated Other Comprehensive	Retained
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	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Compensation</u>	<u>Income</u>	<u>Earnings</u>	<u>Total</u>
Balance at December 31, 2002	9,134,098	\$ 1	5,400,000	\$ 1	\$ 53,342	\$ (144)	\$ —	\$ 16,171	\$ 69,371
Issuance of common stock in conjunction with acquisitions and compensation	68,958	—	—	—	489	72	—	—	561
Comprehensive loss:									
Net loss	—	—	—	—	—	—	—	(972)	(972)
Foreign currency translation adjustment, net of income taxes of \$144	—	—	—	—	—	—	525	—	525
Comprehensive loss	—	—	—	—	—	—	—	—	(447)
Balance at December 31, 2003	9,203,056	1	5,400,000	1	53,831	(72)	525	15,199	69,485
Issuance of common stock in conjunction with acquisitions and compensation	208,841	—	—	—	1,102	72	—	—	1,174
Comprehensive loss:									
Net loss	—	—	—	—	—	—	—	(4,638)	(4,638)
Foreign currency translation adjustment, net of income taxes of \$75	—	—	—	—	—	—	325	—	325
Comprehensive loss	—	—	—	—	—	—	—	—	(4,313)
Balance at December 31, 2004	9,411,897	1	5,400,000	1	54,933	—	850	10,561	66,346
Issuance of common stock in conjunction with acquisitions and compensation	5,598,839	—	—	—	40,907	—	—	—	40,907
Retained earnings adjustment to reflect Conscious Media as an equity investment from the date of initial investment through acquisition of a majority interest	—	—	—	—	—	—	—	(717)	(717)
Comprehensive income:									
Net income	—	—	—	—	—	—	—	1,336	1,336
Foreign currency translation adjustment, net of income taxes of \$(155)	—	—	—	—	—	—	(586)	—	(586)
Comprehensive income	—	—	—	—	—	—	—	—	750
Balance at December 31, 2005	<u>15,010,736</u>	<u>\$ 1</u>	<u>5,400,000</u>	<u>\$ 1</u>	<u>\$ 95,840</u>	<u>\$ —</u>	<u>\$ 264</u>	<u>\$ 11,180</u>	<u>\$ 107,286</u>

See accompanying notes to the consolidated financial statements.

GAIAM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	<u>Years ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating activities			
Net income (loss)	\$ 1,336	\$ (4,638)	\$ (972)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	2,146	2,822	2,594
Amortization	2,555	2,077	1,644
Stock compensation	—	72	72
Minority interest in consolidated subsidiaries	601	897	985
Non-cash loss on disposal of property and equipment	—	259	—
Non-cash loss from equity method investment	646	—	—
Non-cash gain on Gaiam.com stock redemption	—	(442)	(866)
Deferred tax expense	472	(564)	95
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(11,066)	2,622	5,919
Inventory	3,143	304	(574)
Deferred advertising costs	(1,281)	(986)	769
Other current assets	(1,674)	(30)	(252)
Other assets	(139)	330	73
Accounts payable	11,399	192	(58)
Accrued liabilities	(739)	293	(1,845)
Other current liabilities	(665)	(83)	(1,603)
Net cash provided by operating activities	<u>6,734</u>	<u>3,125</u>	<u>5,981</u>
Investing activities			
Purchase of property, equipment, and media content	(1,589)	(1,649)	(5,130)
Purchase of investments and stock rights	—	26	(115)

Payments for acquisitions and investments	(48,894)	(1,623)	(8,976)
Net cash used in investing activities			
Financing activities			
Principal payments on capital leases	—	(55)	(348)
Proceeds from issuance of common stock	38,708	427	130
Net cash provided by (used in) financing activities	38,708	372	(218)
Effects of exchange rates on cash and cash equivalents	(460)	181	169
Net increase (decrease) in cash and cash equivalents	4,589	2,055	(3,038)
Cash and cash equivalents at beginning of year	10,439	8,384	11,422
Cash and cash equivalents at end of year	\$ 15,028	\$ 10,439	\$ 8,384
Supplemental cash flow information			
Interest paid	\$ —	\$ 1	\$ 46
Income taxes paid	1,196	679	1,033
Common stock issued for acquisitions	2,150	539	348

See accompanying notes to the consolidated financial statements.

GAIAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

Gaiam, Inc. (“Gaiam”) was incorporated under the laws of the State of Colorado on July 7, 1988. Gaiam is a multi-channel lifestyle company providing a broad selection of information, products and services to clients who value natural health, personal development, ecological lifestyles and responsible media.

Principle of Consolidation and Basis of Presentation

The accompanying 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.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts with financial institutions and all highly liquid investments, which mature within three months of date of purchase. Cash equivalents are carried at cost, which approximate fair value.

Provision for Doubtful Accounts

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 the accounts receivable based on a combination of factors. When 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.

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 its inventory items to write 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. The reserve for obsolescence was \$1.9 million in 2005 and \$1.8 million in 2004.

Advertising Costs

Deferred advertising costs relate to the preparation, printing, advertising and distribution of infomercials and catalogs. Such costs are deferred for financial reporting purposes until the catalogs and infomercials are distributed and advertised, then amortized over succeeding periods on the basis of estimated sales. Seasonal catalogs are amortized within seven months, while the amortization period for annual catalogs does not exceed one year. Historical sales statistics are the principal factor used in estimating the amortization rate. Other advertising and promotional costs are expensed as incurred.

In accordance with Emerging Issues Task Force (“EITF”) Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products)*, Gaiam records sales discounts or other sales incentives as a reduction to revenues. Gaiam identifies and records as expense those cooperative advertising expenses paid by Gaiam, which are for advertisements meeting the

Amounts recorded as advertising expense, including those related to Gaiam's catalogs and infomercials were \$17.6 million, \$11.6 million and \$13.1 million for the years ended December 31, 2005, 2004 and 2003, respectively, and are included in selling and operating expense in the consolidated statement of operations.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, which includes the amortization of assets recorded under capital leases. Included in property and equipment is the cost of internal-use software, including software used in connection with Gaiam's websites. Gaiam expenses all costs related to the development of internal-use software other than those incurred during the application development stage in accordance with AICPA Statement of Position No. ("SOP") 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software (generally five years). Depreciation of property and equipment is computed on the straight-line method over estimated useful lives (generally five to ten years). Property and equipment purchased under capital leases are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the lease term.

Investments

Investments in corporations over which Gaiam does not have the ability to exercise significant influence, and in which Gaiam has a less than twenty percent ownership interest, 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 in limited liability companies in which Gaiam does not have the ability to exercise significant influence or control, and in which it holds a five percent or more membership interest, are accounted for under the equity method. Under the equity method, Gaiam records its share of the income or losses of the investment by increasing or decreasing the carrying value of its investment and recording the income or expense through the consolidated statement of operations. Investments under the cost and equity methods are included on the accompanying consolidated balance sheet in "Investments."

In 2002, Gaiam invested \$7.8 million for a 15% voting interest in Conscious Media, Inc. (19% economic interest), a multimedia company. Prior to the end of 2005, Gaiam did not have significant influence over the management of Conscious Media, Inc. and accordingly accounted for the investment on a cost basis in all reported periods. On December 30, 2005, Gaiam acquired additional shares of Conscious Media, Inc. which brought Gaiam's total ownership percentage to approximately 51%, and Gaiam's consolidated balance sheet at December 31, 2005 includes the consolidated balance sheet of Conscious Media. The results of operations of Conscious Media will be included in Gaiam's statement of operations commencing in 2006. Please see Note 2 – Mergers and Acquisitions.

In August 2005, Gaiam entered into agreements with Revolution Living, LLC; its founder, Steve Case, and Revolution Living's LIME Media ("LIME") subsidiary. Under the terms of the Transaction Agreement, Gaiam acquired a minority interest in LIME for approximately \$7.5 million. This investment was accounted for using the equity method, so Gaiam's share of the losses sustained by LIME from the date of acquisition through December 31, 2005, totaling \$646 thousand, have been reflected in Gaiam's statement of operations for 2005, and the "Investments" line on the balance sheet has been reduced accordingly. Effective in January 2006, Gaiam reduced its ownership in LIME. Please see Note 11 – Subsequent Events.

Gaiam evaluates its long-lived assets, including investments, on at least an annual basis to test for impairment or valuation issues, and concluded that, as of December 31, 2005 and 2004, no indicators of impairment were present.

Media Library

The media library asset represents the cost of the library of produced videos acquired through business combinations, the purchase price of media rights to both video and audio titles, and the cost to produce media content. The media library is presented net of accumulated amortization of approximately \$4.1 and

\$2.5 million at December 31, 2005 and 2004, respectively, and it is being amortized over the estimated useful life of the titles, which range from five to fifteen years. Additionally, Gaiam estimates approximately \$8 million in participation expenses, primarily royalties, on acquired and produced media content during 2006.

In accordance with SOP No. 00-2, *Accounting by Producers or Distributors of Films*, media library costs to produce media content consists of costs incurred to produce the media content, net of accumulated amortization. These costs, as well as participation costs, are recognized as operating expenses on an individual film basis in the ratio that the current year's gross revenues bear to management's estimate of total ultimate gross revenues from all sources to be earned over a seven year period. Capitalized production costs are stated at the lower of unamortized cost or estimated fair value on an individual film basis. Revenue forecasts are continually reviewed by management and revised when warranted by changing conditions. When estimates of total revenues and other events or changes in circumstances indicate that a film has a fair value that is less than its unamortized cost, an impairment loss is recognized in the current period for the amount by which the unamortized cost exceeds the film's fair value.

During 2005, capitalized production costs for released films were approximately \$312 thousand, and for those films not yet released was approximately \$195 thousand. Additionally, as of December 31, 2005, Gaiam estimates that approximately \$1.4 million or 28% of the unamortized costs for released films will be amortized during 2006, and approximately 70% of the unamortized costs for released films will be amortized within the next three years. Accumulated amortization for produced media content at December 31, 2005 and 2004 was approximately \$6.8 million and \$5.8 million, respectively. Amortization expense for produced media content for the years ended December 31, 2005, 2004 and 2003 was \$1 million, \$1.4 million, and \$1.2 million, respectively.

Amortization expense for acquired media rights for the years ended December 31, 2005, 2004 and 2003 was \$1.5 million, \$687 thousand, and \$492 thousand, respectively. Based upon the acquired and purchased media and audio titles and rights at December 31, 2005 the annual amortization expense for the next five years is expected to approximate \$5 million per annum. Gaiam added \$29 million in media assets from its acquisition of content and programming from GoodTimes Entertainment.

Based on the acquired and capitalized video production costs at December 31, 2005 and assuming no subsequent impairment of the underlying assets or a material increase in the video productions or media acquired, the amortization expense for the next five to fifteen years is expected to continue to be \$3 to \$5 million per annum.

Goodwill

Gaiam adopted Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*, effective January 1, 2002.

The standard requires that goodwill no longer be amortized, but tested for impairment at least annually. These tests will be performed more frequently if there is a triggering event indicating potential impairment. Prior to adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over lives ranging from 10 to 20 years.

SFAS No. 142 prescribes a two-step method for determining goodwill impairment. In the first step, the fair value of the reporting unit is determined using a comparable companies market multiple approach. If the net book value of the reporting unit exceeds the fair value, then the second part of the impairment test would be completed. This involves an allocation of the reporting unit’s fair value to all of its assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value being allocated to goodwill. The fair value of the goodwill is then compared to its carrying amount to determine impairment. An impairment charge will be recognized only when the implied fair value of a reporting unit’s goodwill is less than its carrying amount.

Gaiam completed its annual goodwill tests, using comparable company market multiples to establish the fair value of the reporting units, and found no goodwill impairment in either of its reporting units for 2005 and 2004.

Gaiam has allocated all of its goodwill balance of \$17 million at December 31, 2005 to its two reporting units, business and direct to consumer, in the amounts of \$11.3 million and \$5.7 million, respectively. At December 31, 2004, Gaiam allocated goodwill in the amounts of \$4.3 million and \$5.5 million, respectively, to its business and direct to consumer reporting units. Goodwill is allocated to reporting units at the time of acquisition. The following table sets forth the changes in goodwill for the period December 31, 2003 through December 31, 2005 by business segment:

Goodwill (in thousands)	Direct to Consumer Segment	Business Segment	Total
Balance at December 31, 2003	\$ 5,477	\$ 4,032	\$ 9,509
Foreign currency rate change	—	247	247
Balance at December 31, 2004	5,477	4,279	9,756
Additions	231	7,759	7,990
Foreign currency rate change		(351)	(351)
Balance at December 31, 2005	\$ 5,708	\$ 11,687	\$ 17,395

Long-Lived Assets

Gaiam evaluates impairment of its long-lived assets, other than goodwill, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The carrying value of long-lived assets held and used, other than goodwill, is evaluated when events or changes in circumstances indicate the carrying value may not be recoverable. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from such asset are separately identifiable and are less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the estimated fair market value of the long-lived asset. Estimated fair market value is determined primarily using the projected cash flows from the asset discounted at a rate commensurate with the risk involved. Losses on long-lived assets held for sale, other than goodwill, are determined in a similar manner, except that fair market values are reduced for disposal costs.

Income Taxes

Gaiam provides for income taxes pursuant to the liability method as prescribed in SFAS No. 109, *Accounting for Income Taxes*. The liability method requires recognition of deferred income taxes based on temporary differences between financial reporting and income tax bases of assets and liabilities, using currently enacted income tax rates and regulations.

Revenues

Revenue from the sale of products is recognized at the time merchandise is shipped to the customer. Revenue for services provided, such as design consultation for solar installations, is recognized when services are rendered. Licensing revenue is recognized upon delivery of the media licensed. Amounts billed to customers for postage and handling charges, which were approximately \$7.6 million for 2005, \$4 million for 2004, and \$4.1 million for 2003 are recognized as revenue at the time that the revenues arising from the product being shipped are recognized. Postage and handling costs, which were approximately \$8.3 million for 2005, \$4.4 million for 2004, and \$3.6 million for 2003, are included in selling and operating expense along with other fulfillment costs incurred to warehouse, package and deliver products to customers. Gaiam provides a reserve for expected future returns at the time the sale is recorded based upon historical experience and future expectations.

Fair Value of Financial Instruments

The carrying amounts of Gaiam's financial instruments, including cash, cash equivalents and trade receivables and payables, approximate their fair values.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes including the valuation of stated accounts receivable and inventory balances. Actual results could differ from those estimates.

Stock-Based Compensation

Gaiam accounts for its stock-based compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("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 deemed 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 is periodically re-measured as the underlying options vest (in thousands, except per share data).

	For the Years Ended		
	December 31,		
	2005	2004	2003
Net income (loss) as reported	\$ 1,336	\$ (4,638)	\$ (972)
Add: Stock-based compensation expense included in reported net income (loss), net of related tax effects	—	72	72
Deduct: Total stock-based compensation expenses determined under fair value based method for all awards, net of related tax effects	(398)	(611)	(161)
Pro forma	\$ 938	\$ (5,177)	\$ (1,061)
Net income (loss) per common share			
As reported	\$ 0.08	\$ (0.32)	\$ (0.07)
Pro forma	\$ 0.06	\$ (0.35)	\$ (0.07)
Fully diluted net income (loss) per common share:			
As reported	\$ 0.08	\$ (0.32)	\$ (0.07)
Pro forma	\$ 0.05	\$ (0.35)	\$ (0.07)

New Accounting Pronouncements

SFAS No. 123R

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123R"). SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after December 15, 2005, with early adoption encouraged. SFAS No. 123R will require then outstanding options vesting after the date of initial adoption to be recognized as a charge to operations over the remaining vesting period.

We are required to adopt SFAS 123R beginning January 1, 2006. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include modified prospective and modified retroactive adoption methods. Under the modified retroactive method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and share awards at the beginning of the first quarter of adoption of SFAS 123R, while the modified retroactive methods would record compensation expense for all unvested stock options and share awards beginning in the first period restated. Although we are continuing to evaluate the requirements of SFAS 123R, we have determined that we will use the modified prospective method to adopt SFAS 123R. We have not completed our assessment of the impact of SFAS 123R; however, we believe that the adoption of SFAS No. 123R could have a material impact on our results of operations.

SFAS No. 154

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.

SFAS No. 155

On February 16, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Statements No. 133 and 140* (SFAS 155). SFAS 155 allows financial instruments that have embedded derivatives that otherwise would require bifurcation from the host to be accounted for as a whole, if the holder irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value of the instrument would be recognized in earnings. The standard also (i) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; (ii) establishes a requirement to evaluate interests in securitized financial assets to determine whether interests are freestanding derivatives or are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (iii) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and (iv) eliminates the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest (that is itself a derivative financial instrument). SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity’s fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. Gaiam will adopt SFAS 155 in its fiscal year commencing January 1, 2007. Management does not believe that SFAS 155 will have a material impact on Gaiam’s consolidated financial statements.

Defined Contribution Plan

In 1999, Gaiam adopted a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code, which covers substantially all employees. Eligible employees may contribute amounts to the plan, via payroll withholding, subject to certain limitations. The 401(k) plan permits, but does not require, additional matching contributions to the 401(k) plan by Gaiam on behalf of all participants in the 401(k) plan. To date, Gaiam has not made any matching contributions to the 401(k) plan.

Foreign Currency Translation

Our foreign subsidiaries use their local currency as their functional currency. Assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense accounts are translated at the average monthly exchange rates during the year. Resulting translation

adjustments, net of income taxes, are recorded as a separate component of accumulated other comprehensive income.

Comprehensive Loss

SFAS No. 130, *Reporting on Comprehensive Income* establishes standards for reporting and display of comprehensive income and its components in the consolidated financial statements. Comprehensive income includes all changes in equity during a period from non-owner sources. These include foreign currency translation adjustments, net of income taxes.

Reclassifications

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

Earnings (Loss) Per Share

Basic earnings (loss) per share excludes 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 119 thousand and 102 thousand are excluded from the computation of diluted earnings per share for 2004 and 2003, respectively, because their effect is antidilutive.

The following table sets forth the computation of basic and diluted earnings per share:

(In thousands, except per share amounts)	For the Years Ended December 31,		
	2005	2004	2003
Numerator for basic and diluted earnings (loss) per share	\$ 1,336	\$ (4,638)	\$ (972)
Denominator:			
Weighted average shares for basic earnings (loss) per share	17,140	14,684	14,594
Effect of dilutive securities:			
Weighted average of common stock, stock options, and warrants	214	—	—
Denominators for diluted earnings (loss) per share	17,354	14,684	14,594
Net income (loss) per share—basic	\$ 0.08	\$ (0.32)	\$ (0.07)
Net income (loss) per share—diluted	\$ 0.08	\$ (0.32)	\$ (0.07)

2. Mergers and Acquisitions

Results from operations of acquired companies are included in the consolidated financial statements of Gaiam from the effective acquisition dates.

On January 20, 2003, Gaiam acquired a 50.1% interest in Leisure Systems International (“LSI”) Ltd., a U.K. based distributor and marketer of lifestyle products. The total purchase price consisted of the following (in thousands):

Cash	\$ 4,301
Gaiam Class A common stock – 50,000 shares	348
Acquisition, legal and accounting costs	393
Total purchase price	\$ 5,042

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At the acquisition date, LSI met the accounting criteria to be considered a business combination as outlined in SFAS No. 141, *Business Combinations*. Accordingly, Gaiam recorded the excess purchase price over the already allocated fair value of net assets acquired and intangible assets as goodwill. The fair value assigned to intangible assets acquired was determined through established valuation techniques.

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

Tangible assets less liabilities	\$ 2,122
Intangible assets	50
Goodwill	2,870
Total purchase price	\$ 5,042

The purchase price was based upon an adjusted multiple of the earnings of LSI and factored in the identifiable, tangible assets of LSI. As Gaiam’s costs to start a U.K. distribution company of its own, both capital expenditures and working capital, and the loss of income produced by LSI, would have significantly exceeded the goodwill incurred in this purchase transaction. The results of operations of LSI are included in the consolidated financial statements of Gaiam from the effective acquisition date of January 1, 2003, and, in 2005, LSI changed its name to Gaiam Limited.

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 as part of the GoodTimes Entertainment asset acquisition. The operating results of this catalog are included in the results of operations from August 1, 2005. These results are no significant to the overall consolidated Gaiam operations.

In August 2005, Gaiam, entered into agreements with Revolution Living, LLC; its founder, Steve Case, and Revolution Living’s LIME Media (“LIME”) subsidiary. Under the terms of the Transaction Agreement, Gaiam acquired a minority interest in LIME for approximately \$7.5 million. This investment was accounted for using the equity method, so Gaiam’s share of the losses sustained by LIME from the date of acquisition through December 31, 2005, totaling \$646 thousand, have been reflected in Gaiam’s statement of operations for 2005, and the “Investments” line on the balance sheet has been reduced accordingly. Effective in January 2006, Gaiam reduced its ownership in LIME. Please see Note 11 – Subsequent Events.

In September 2005, Gaiam acquired the majority of the assets held by 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>

Of the total purchase price, Gaiam allocated \$29,087 to the acquired media titles and content, \$13,241 to the tangible assets purchased, and recorded \$7,302 in assumed liabilities. This allocation of the total purchase price of the assets acquired from GoodTimes Entertainment was based on their estimated fair values as of the date of acquisition. 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.

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 this date.

In October 2005, Gaiam acquired a majority interest in a distribution company specializing in placing wellness media products in the grocery and drugstore channels for an approximately \$750 thousand cash contribution to the company. Gaiam allocated the purchase price to the net tangible assets, and, as the company had negative net worth, Gaiam recorded \$869 thousand in goodwill. Management feels that the company's expertise in product placement in these under-penetrated channels more than compensates for the goodwill recorded.

On December 30, 2005, Gaiam increased its ownership percentage in Conscious Media, Inc., a multimedia company, to 51% for an additional investment of \$3.5 million. Gaiam acquired shares directly from the Company for its \$1.5 million in notes receivable and issued 146,667 shares of Gaiam Class A common stock and promissory notes totaling \$240 thousand to certain Conscious Media shareholders. (One of these shareholders, a non-profit corporation, who had received their shares as a contribution prior to Gaiam's original investment, sold their shares to Gaiam at a discount). Gaiam has recorded a reduction to retained earnings and its investment of \$717 thousand to reflect its share of the results from operations of Conscious Media from the date of its original investment in 2002 to the end of 2005, when Gaiam acquired a majority interest. Gaiam valued the net tangible assets of Conscious Media at December 30, 2005, recorded the portion assignable to minority interest and recorded \$6.9 million in goodwill. Management believes that Conscious Media's expertise in media programming, development and post production will complement Gaiam's current businesses and future growth, at a cost less than Gaiam could develop on its own. The results of operations of Conscious Media will be included in Gaiam's statement of operations commencing in 2006 and their consolidated balance sheet has been consolidated into Gaiam's balance sheet at December 31, 2005.

3. Property and Equipment

Property and equipment, stated at cost, consists of the following as of December 31:

	2005	2004
Land	\$ 3,100	\$ 3,100
Buildings	1,545	1,545
Furniture, fixtures and equipment	4,670	4,553
Leasehold improvements	1,321	1,239
Website development costs	4,094	3,761
Studio, computer and telephone equipment	10,890	5,546
Vehicles	636	638
Warehouse equipment	1,462	779
	<u>27,718</u>	<u>21,161</u>
Accumulated depreciation and amortization	(18,290)	(13,304)
	<u>\$ 9,428</u>	<u>\$ 7,857</u>

4. Leases

Gaiam leases office, retail, and warehouse space through operating leases. Gaiam has renewal clauses in some of these leases, which range from 1 to 10 years. The following schedule represents the annual future minimum payments, as of December 31, 2005 (in thousands):

	Operating
2006	\$ 2,861
2007	2,615
2008	947
2009	187
2010	161
2011	139
2012	120
Total minimum lease payments	<u>\$ 7,030</u>

Gaiam incurred rent expense of \$2.7 million, \$2 million and \$1.8 million for the years ended December 31, 2005, 2004 and 2003, respectively.

5. Accrued Liabilities

Accrued liabilities consist of the following as of December 31:

	2005	2004
Accrued royalties	\$ 6,596	\$ 538
Deferred funding obligation – LIME investment	2,078	—
Accrued compensation	1,395	599
Other accrued liabilities	2,580	2,561
	<u>\$ 12,649</u>	<u>\$ 3,698</u>

6. Line of Credit

Gaiam is party to a revolving line of credit agreement with a financial institution, which expires during 2007. The credit agreement permits borrowings up to the lesser of \$15 million or Gaiam's borrowing base which is calculated based upon the collateral value of Gaiam's accounts receivable, inventory, and certain property and equipment. Borrowings under this agreement 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 cash and investments held at the financial institution, accounts receivable, inventory and certain property and equipment. The credit agreement contains various financial covenants, including covenants prohibiting the payment of cash dividends to Gaiam's shareholders and requiring the maintenance of certain financial ratios. At December 31, 2005, Gaiam had no amounts outstanding under this agreement, and was in compliance with all the financial covenants.

7. Income Taxes

Gaiam's provision for income taxes is comprised of the following:

	For the Years Ended December 31,		
	2005	2004	2003
Current:			
Federal	\$ 346	\$ (2,157)	\$ (686)
State	48	(381)	(122)
International	301	662	512
	<u>695</u>	<u>(1,876)</u>	<u>(296)</u>
Deferred:			
Federal	232	(482)	(142)
State	47	(82)	(23)
	<u>279</u>	<u>(564)</u>	<u>(165)</u>
Total	<u>\$ 974</u>	<u>\$ (2,440)</u>	<u>\$ (461)</u>

Variations from the federal statutory rate are as follows:

	2005	2004	2003
Expected federal income tax expense at statutory rate of 34%	\$ 978	\$ (2,079)	\$ (262)
Effect of permanent differences	30	28	44
State income tax expense, net of federal benefit and utilization of net operating loss	66	(301)	(91)
Effect of differences between U.S. taxation and foreign taxation	(100)	(88)	(153)
Other	—	—	1
Income tax expense	<u>\$ 974</u>	<u>\$ (2,440)</u>	<u>\$ (461)</u>

Deferred income taxes reflect net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The

components of the net accumulated deferred income tax asset as of December 31, 2005 and 2004 are as follows:

	December 31,	
	2005	2004
Deferred tax assets (liabilities):		
Current:		
Provision for doubtful accounts	\$ 130	\$ 217
Inventory-related expense	560	653
Accrued liabilities	1,090	792
Prepaid and deferred catalog costs	(900)	(533)

Net operating loss carryback	2,746	2,881
Other	—	16
Total current deferred tax assets	<u>\$ 3,627</u>	<u>\$ 4,026</u>
Non-current:		
Depreciation and amortization	(267)	(260)
Net operating loss carryforward	7,613	3,136
Foreign exchange rate gain	(64)	(219)
Total non-current deferred tax assets	<u>\$ 7,282</u>	<u>\$ 2,657</u>
Total net deferred tax assets	<u>\$ 10,909</u>	<u>\$ 5,538</u>

At December 31, 2005, no provision had been made for U.S. federal and state income taxes on approximately \$2 million of undistributed foreign earnings, which are expected to be reinvested outside of the U.S. indefinitely. Upon distribution of those earnings in the form of dividends or otherwise, Gaiam would be subject to U.S. income taxes (subject to an adjustment for foreign tax credits), state income taxes, and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation. Gaiam's foreign subsidiaries generated income before minority interest and income taxes of approximately \$1.2 million, \$2.1 million and \$2.0 million in 2005, 2004 and 2003, respectively.

At December 31, 2005 Gaiam had net operating loss (NOL) carry forwards of approximately \$19.6 million associated with acquisitions completed in 2001, 2002 and 2005, which may be used to offset future taxable income. These carryforwards expire beginning in 2019. The Internal Revenue Service Code contains provisions that limit the NOL available for use in any given year upon the occurrence of certain events, including significant changes in ownership interest. A change in ownership of a company of greater than 50% within a three-year period results in an annual limitation on the utilization of NOL carryforwards from tax periods prior to the ownership changes. Gaiam's NOL carryforwards as of December 31, 2005 are subject to annual limitations due to changes in ownership.

Gaiam expects the deferred tax assets at December 31, 2005 to be fully recoverable and the deferred tax liabilities at December 31, 2005 to be fully satisfied through the reversal of taxable temporary differences in future years as a result of normal business activities. Accordingly, no valuation allowances for deferred tax items were considered necessary as of December 31, 2005 or 2004.

8. Stockholders' Equity

In 2003, Gaiam issued 50,000 shares of Class A common stock in conjunction with the acquisition of 50.1% of Leisure Systems International Ltd. and 3,750 shares of Class A common stock to Gaiam's independent directors in lieu of cash compensation for services rendered in 2002. In addition, Gaiam issued 15,208 shares of Class A common stock upon exercise of options granted under the 1999 Long-Term Incentive Plan.

In 2004, Gaiam issued 97,590 shares of Class A common stock upon exercise of options granted under the 1999 Long-Term Incentive Plan, and 11,251 shares of Class A common stock to Gaiam's independent directors in lieu of cash compensation for services rendered in 2003.

In 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, and issued 62,634 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. These shares contain certain registration rights. 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. Additionally, Gaiam issued 60,000 shares of Class A common stock as purchase consideration for a media catalog business and issued 146,667 shares of Class A common stock to purchase shares of Conscious Media, Inc.

As of December 31, 2005, Gaiam had the following Class A common shares reserved for future issuance:

Conversion of Class B common shares	5,400,000
Awards under the 1999 Long-Term Incentive Plan	
Stock options outstanding	1,566,600
Shares reserved for issuance to directors in lieu of cash compensation for 2005 services rendered	<u>8,221</u>
Total shares reserved for future issuance	<u>6,974,821</u>

Each holder of shares of Class A common stock is entitled to one vote for each share held on all matters submitted to a vote of shareholders. Each share of Class B common stock is entitled to ten votes on all matters submitted to a vote of shareholders. There are no cumulative voting rights. All holders of shares of Class A common stock and shares of Class B common stock vote as a single group on all matters that are submitted to the shareholders for a vote. Accordingly, holders of a majority of the votes of the shares of Class A common stock and shares of Class B common stock entitled to vote in any election of directors may elect all of the directors who stand for election. As a result of voting rights described above, the holder of the Class B common stock has effective control of Gaiam. As of December 31, 2005 and 2004, all Class B common stock was held by the Chief Executive Officer of Gaiam.

Shares of Class A common stock and shares of Class B common stock are entitled to equal dividends, if any, as may be declared by the

Board of Directors out of legally available funds. In the event of a liquidation, dissolution or winding up of Gaiam, the shares of Class A common stock and shares of Class B common stock would be entitled to share ratably in Gaiam's assets remaining after the payment of all of Gaiam's debts and other liabilities. Holders of shares of Class A common stock and shares of Class B common stock have no preemptive, subscription or redemption rights, and there are no redemption or sinking fund provisions applicable to the shares of Class A common stock and Class B common stock. The outstanding shares of Class A common stock and shares of Class B common stock are fully paid and non-assessable.

The Class B common stock may not be transferred unless converted into shares of Class A common stock, other than certain transfers to affiliates, family members, and charitable organizations. The shares of Class B common stock are convertible one-for-one into shares of Class A common stock, at the option of the holder of the shares of Class B common stock.

9. Stock Option Plans

On June 1, 1999, Gaiam adopted its 1999 Long-Term Incentive Plan ("the Plan"), which provides for the granting of options to purchase up to 2.1 million shares of Gaiam's common stock. Both incentive stock options and non-qualified stock options may be issued under the provisions of the Plan. Employees of Gaiam and its affiliates, members of the Board of Directors, consultants and certain key advisors are eligible to participate in the plan, which terminates no later than June 1, 2009. Options granted under the Plan generally vest and become exercisable at 2% per month for the 50 months beginning in the eleventh month after date of grant. Grants generally expire seven years from the date of grant.

Gaiam's compensation expense was \$72 thousand in each of 2004 and 2003. In 2000, deferred compensation was recorded in connection with acquisitions made by Gaiam in which options were issued to employees of an acquired company; options issued to employees whereby the grant price differed from the deemed fair value of Gaiam's common stock; and options issued to non-employees for services to be provided over the related terms of their respective agreements.

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In calculating deferred compensation for each equity award granted to non-employees, Gaiam used the Black Scholes option pricing model, with the following weighted-average assumptions used for grants in 2005, 2004 and 2003: risk-free interest rates ranging from 2.26% to 4.39%; expected dividend yield of zero; expected option lives of 5 years, and expected volatility of 0.42, 0.69 and 0.70, respectively. The amortization of deferred compensation is charged to operations over the vesting period of the options, which is typically 5 years. Total amortization expense recognized in 2004 and 2003 related to deferred compensation was \$72 thousand in each year.

A summary of stock option activity and weighted average exercise prices for the years ended December 31, 2005 and 2004 follows:

	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,566,600	\$ 7.57	1,704,680	\$ 7.52
Granted:				
Price equal to fair value	206,500	\$ 9.88	38,000	\$ 6.23
Exercised	(62,634)	\$ 5.60	(97,590)	\$ 6.34
Forfeited	(205,902)	\$ 8.98	(78,490)	\$ 5.95
Outstanding at end of year	1,504,564	\$ 7.74	1,566,600	\$ 7.57
Exercisable at end of year	1,071,714	\$ 7.91	917,080	\$ 7.47
Shares available on December 31, for options that may be granted	307,792		315,532	

A summary of stock options outstanding as of December 31, 2005 follows:

Range of Exercise Prices	Outstanding Stock Options			Exercisable Stock Options	
	Shares Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$ 4.00 - \$4.99	445,164	0.5	\$ 4.38	442,464	\$ 4.38
\$ 5.00 - \$5.99	431,220	4.1	\$ 5.27	188,800	\$ 5.19
\$ 6.00 - \$6.99	29,800	5.4	\$ 6.63	9,570	\$ 6.60
\$ 9.00 - \$9.99	3,500	3.6	\$ 9.75	3,500	\$ 9.75
\$ 10.00 - \$10.99	361,100	4.5	\$ 10.21	196,100	\$ 10.21
\$ 12.00 - \$12.99	30,000	2.2	\$ 12.38	30,000	\$ 12.38
\$ 13.00 - \$13.99	2,500	6.9	\$ 13.37	0	\$ 0.00
\$ 14.00 - \$14.99	5,000	3.5	\$ 14.81	5,000	\$ 14.81
\$ 15.00 - \$15.99	187,280	2.5	\$ 15.31	187,280	\$ 15.31
\$ 16.00 - \$16.99	7,000	1.8	\$ 16.35	7,000	\$ 16.35
\$ 17.00 - \$17.99	2,000	1.6	\$ 17.18	2,000	\$ 17.18
	1,504,564	2.9	\$ 7.74	1,071,714	\$ 7.91

In estimating the pro forma compensation expense for each equity award granted during the year, Gaiam used the Black Scholes option

pricing model, with the following weighted-average assumptions used for grants in 2005, 2004 and 2003, respectively: risk-free interest rates ranging from 2.26% and 4.39%, expected dividend yield of zero; expected option lives of 5 years, and expected volatility of 0.42, 0.69 and 0.70, respectively.

	2005	2004	2003
Weighted-average fair value of options granted during the year:			
Price equal to fair value	\$ 4.37	\$ 3.48	\$ 3.21
Price less than fair value	\$ —	\$ —	\$ —

Option valuation models such as the minimum value and Black-Scholes methods described above require the input of highly subjective assumptions. Because Gaiam's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

10. Segment and Geographic Information

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

Although Gaiam is able to track revenues by sales channel, the 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):

Segment Information

	Year Ended December 31,		
	2005	2004	2003
Net revenue:			
Direct to consumer	\$ 72,337	\$ 52,428	\$ 50,457
Business	70,155	44,229	51,543
Consolidated net revenue	142,492	96,657	102,000
Contribution margin:			
Direct to consumer	(781)	(82)	594
Business	3,867	(6,208)	(1,876)
Consolidated contribution margin	3,086	(6,290)	(1,282)
Reconciliation of contribution margin to net income (loss):			
Other income (expense)	(175)	109	546
Income tax expense (benefit)	974	(2,440)	(461)
Minority interest in net income of consolidated subsidiary, net of income taxes	(601)	(897)	(697)
Net income (loss)	\$ 1,336	\$ (4,638)	\$ (972)

Long-lived assets

The direct to consumer segment had allocated long-lived assets of \$11.2 million, \$6.0 million, and \$6.8 million at December 31, 2005, 2004, and 2003, respectively. The business segment had allocated long-lived assets of \$36.8 million, \$13.0 million, and \$16.2 million at December 31, 2005, 2004 and 2003, respectively. The following represents the composition of long-lived assets:

	2005	2004	2003
Long-lived assets (in thousands):			
Property and equipment, net	\$ 9,428	\$ 7,857	\$ 10,313
Media library, net	38,339	10,884	12,178
Other assets (1)	282	205	456
Total long-lived assets	\$ 48,049	\$ 18,946	\$ 22,947

(1) Excludes security deposits of \$138, \$102, and \$200 for 2005, 2004 and 2003, respectively.

Major Customer

Sales to our largest customer for 2005, 2004 and 2003 accounted for approximately 12.1%, 13.2% and 10.9% of total revenue,

respectively, during these periods.

Geographic Information

Gaiam has three major geographic territories where it sells and distributes essentially the same products. The geographic territories are the U.S., Canada and the United Kingdom. The following represents geographical data for Gaiam's operations:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue:			
Canada	\$ 801	\$ 450	\$ 2,201
United Kingdom	13,657	16,815	14,484
United States	128,034	79,392	85,315
	<u>\$ 142,492</u>	<u>\$ 96,657</u>	<u>\$ 102,000</u>
Long-Lived Assets:			
The Netherlands	\$ 740	\$ 801	\$ 863
United Kingdom	989	1,028	1,710
United States	44,879	17,014	20,374
	<u>\$ 46,608</u>	<u>\$ 18,843</u>	<u>\$ 22,947</u>

10. Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2005 and 2004 (in thousands, except for per share data):

	<u>Fiscal 2005</u>			
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Net revenue	\$ 26,324	\$ 21,706	\$ 30,139	\$ 64,322
Gross profit	13,749	10,557	16,713	39,496
Operating income (loss)	287	(1,271)	878	3,193
Net income (loss)	116	(766)	505	1,481
Diluted net income (loss) per share	\$ 0.01	\$ (0.05)	\$ 0.03	\$ 0.07
Weighted average shares outstanding-diluted	14,820	14,820	18,892	20,595

	<u>Fiscal 2004</u>			
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Net revenue	\$ 23,775	\$ 17,031	\$ 21,023	\$ 34,828
Gross profit	12,676	8,540	9,827	16,968
Operating income (loss)	(329)	(3,634)	(2,324)	(3)
Net income (loss)	(329)	(2,215)	(1,530)	(564)
Diluted net income (loss) per share	\$ (0.02)	\$ (0.15)	\$ (0.10)	\$ (0.04)
Weighted average shares outstanding-diluted	14,615	14,686	14,712	14,723

Note: The aggregate of certain of the above amounts differs from that reported for the full fiscal year due to the effects of rounding.

11. Subsequent Events

Gaiam has entered into an agreement with Alps Communications LLC and Life Balance Media Holdings LLC, effective January 5, 2006, to sell 19,968 Series A Preferred Units of LIME. The

purchase price per unit was equal to the amount of Gaiam paid for its investment. Alps Communications assumed all unpaid Series A Capital Contribution commitments from Gaiam and executed a promissory note in the principal amount of \$2,250,000. After the closing of this transaction, Gaiam owns 4,876 units, or less than 4%, of LIME.

Financial Statement Schedule II

Gaiam, Inc.
Schedule II - Consolidated Valuation and Qualifying Accounts
Years Ended December 31, 2005, 2004 and 2003
(in thousands)

<u>Balance at beginning of Year</u>	<u>Additions Charged to costs and expenses</u>	<u>Deductions</u>	<u>Balance at end of Year (1)</u>
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Allowance for Doubtful Accounts:							
2005	\$	642	\$	945	\$	826	\$ 761
2004	\$	801	\$	892	\$	1,051	\$ 642
2003	\$	854	\$	1,157	\$	1,210	\$ 801
Reserve for Sales Returns:							
2005	\$	1,814	\$	6,159	\$	1,935	\$ 6,038
2004	\$	1,133	\$	1,153	\$	472	\$ 1,814
2003	\$	931	\$	608	\$	406	\$ 1,133

(1) Includes reserves associated with acquired assets/companies

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. 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 December 31, 2005, they have concluded that those disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no changes in Gaiam's internal control over financial reporting during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to affect, Gaiam's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

The management of Gaiam is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future

periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Gaiam's management assessed the effectiveness of Gaiam's internal control over financial reporting as of December 31, 2005. In making the assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "*Internal Control-Integrated Framework*." Based on that assessment, management concluded that, as of December 31, 2005, Gaiam's internal control over financial reporting is effective based on those criteria.

Gaiam's assessment of the effectiveness of Gaiam's internal control over financial reporting as of December 31, 2005 has been audited by Ehrhardt Keefe Steiner & Hottman PC, an independent registered public accounting firm, as stated in their report, which is included herein.

Item 9B. Other Information

Not applicable.

Part III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item is incorporated herein by reference to Gaiam's Proxy Statement for its Annual Meeting of Shareholders, to be held on June 22, 2006, to be filed with the Commission pursuant to Regulation 14A.

Code of Ethics

We have adopted a Code of Ethics applicable to our employees, including our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. We have posted a copy of our Code of Ethics on the corporate section of our Internet website at www.gaiam.com/corporate. Any waivers of the Code of Ethics must be approved, in advance, by our full Board of Directors. Any amendments or waivers from the Code of Ethics that apply to our executive officers and directors will be posted on the "Code of Ethics" section of our Internet website located at www.gaiam.com/corporate.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to Gaiam's Proxy Statement for its Annual Meeting of Shareholders, to be held on June 22, 2006, to be filed with the Commission pursuant to Regulation 14A.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to Gaiam's Proxy Statement for its Annual Meeting of Shareholders to be held on June 22, 2006, to be filed with the Commission pursuant to Regulation 14A.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated herein by reference to Gaiam's Proxy Statement for its Annual Meeting of Shareholders to be held on June 22, 2006, to be filed with the Commission pursuant to Regulation 14A.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to Gaiam's Proxy Statement for its Annual Meeting of Shareholders to be held on June 22, 2006, to be filed with the Commission pursuant to Regulation 14A.

PART IV**Item 15. Exhibits and Financial Statement Schedules**

(A) Documents filed as part of this report are as follows:

1. Consolidated Financial Statements.

See listing of Consolidated Financial Statements included as part of this Form 10-K in Item 8 of Part II.

2. Financial Statement Schedules.

Schedule II Consolidated Valuation and Qualifying Accounts.

3. Exhibits:

The following exhibits are incorporated by reference or are filed or furnished with this report as indicated below:

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation of Gaiam, Inc. (incorporated by reference to Exhibit 3.1 of Gaiam's Registration Statement on Form S-1 (No. 333-83283)).
3.2	Bylaws of Gaiam, Inc. (filed herewith).
4.1	Form of Gaiam, Inc. Stock Certificate (incorporated by reference to Exhibit 4.1 of Gaiam's Registration Statement on Form S-1 (No. 333-83283)).
10.1	Amended and Restated Credit Agreement dated July 29, 2005 between Gaiam, Inc. and Wells Fargo Bank, National Association (incorporated by reference to exhibit 10.2 of Gaiam's quarterly report on Form 10-Q for the quarter ended June 30, 2005).
10.2	Gaiam, Inc. 1999 Long-Term Incentive Plan (filed herewith).
10.3	Lease, dated December 16, 1999, between Gaiam, Inc. and Duke-Weeks Realty Limited Partnership (incorporated by reference to Exhibit 10.2 of Gaiam's Registration Statement on Form S-4 (No. 333-50560)).
10.4	First Lease Amendment, dated March 1, 2000, between Gaiam, Inc. and Duke-Weeks Realty Limited Partnership (incorporated by reference to exhibit 10.4 of Gaiam's annual report on Form 10-K for the year ended December 31, 2002).
10.5	Second Lease Amendment, dated October 5, 2005, between Gaiam, Inc. and Duke-Weeks Realty (filed herewith).

- 10.6 Lease Amendment, dated October 5, 2005, between Gaiam, Inc. and Dugan Realty (filed herewith).
- 10.7 Class A Stock Purchase Agreement, dated as of June 10, 2005, as amended and restated June 16, 2005, among Gaiam, Inc. and the purchasers set for on the signature pages to the Agreement (incorporated by reference to exhibit 10.1 of Gaiam's current report on Form 8-K dated June 10, 2005).
- 10.8 Asset Purchase Agreement, dated as of July 8, 2005, among Gaiam, Inc., GT Brands LLC, GT Merchandising & Licensing LLC, Gym Time, LLC, BSBP Productions LLC, and GoodTimes Entertainment LLC (incorporated by reference to exhibit 10.1 of Gaiam's current report on Form 8-K dated July 7, 2005), as amended by Amendment dated as of September 8, 2005 among Gaiam, Inc., GT Brands LLC, GT Merchandising & Licensing LLC, Gym Time, LLC, BSBP Productions LLC, and GoodTimes Entertainment LLC (incorporated by

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reference to exhibit 10.1 of Gaiam's current report on Form 8-K dated September 13, 2005).

- 10.9 Transaction Agreement dated as of August 4, 2005 among Gaiam, Inc., Revolution Living, LLC and Life Balance Media Holdings, LLC (incorporated by reference to exhibit 10.1 of Gaiam's current report on Form 8-K dated August 3, 2005).
- 10.10 Shareholders Agreement dated as of August 4, 2005 among Gaiam, Inc., Jirka Rysavy, Revolution Living, LLC, and Stephen M. Case (incorporated by reference to exhibit 10.1 of Gaiam's current report on Form 8-K dated August 3, 2005).
- 10.11 Form of Employment Agreement between Gaiam, Inc. and Jirka Rysavy (incorporated by reference to exhibit 10.1 of Gaiam's current report on Form 8-K dated August 3, 2005).
- 10.12 Form of Employment Agreement between Gaiam, Inc. and Lynn Powers (incorporated by reference to exhibit 10.1 of Gaiam's current report on Form 8-K dated August 3, 2005).
- 10.13 Insurance and Stock Redemption Agreement dated as of August 4, 2005 between Gaiam, Inc. and Jirka Rysavy (incorporated by reference to exhibit 10.1 of Gaiam's current report on Form 8-K dated August 3, 2005).
- 10.14 Gaiam, Inc. Executive Officer Salaries (incorporated by reference to exhibit 10.6 of Gaiam's current report on Form 8-K dated August 3, 2005, and additional disclosure filed herewith).
- 10.15 Gaiam, Inc. Nonemployee Director Compensation (filed herewith).
- 10.16 Form of Stock Option Agreement under Gaiam's 1999 Long-Term Incentive Plan (incorporated by reference to exhibit 10.1 of Gaiam's quarterly report on Form 10-Q for the quarter ended June 30, 2005).
- 21.1 List of Gaiam Subsidiaries (filed herewith).
- 23.1 Consent letter from Ehrhardt Keefe Steiner & Hottman (filed herewith).
- 23.2 Consent of Ernst & Young LLP (filed herewith).
- 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 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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Broomfield, State of Colorado, on this 13th day of March, 2006.

GAIAM, INC.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jirka Rysavy</u> Jirka Rysavy	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 13, 2006
<u>/s/ Lynn Powers</u> Lynn Powers	President, Secretary and Director	March 13, 2006
<u>/s/ James Argyropoulos</u> James Argyropoulos	Director	March 13, 2006
<u>/s/ Barnet M. Feinblum</u> Barnet M. Feinblum	Director	March 13, 2006
<u>/s/ Barbara Mowry</u> Barbara Mowry	Director	March 13, 2006
<u>/s/ Ted Nark</u> Ted Nark	Director	March 13, 2006
<u>/s/ Paul H. Ray</u> Paul H. Ray	Director	March 13, 2006
<u>/s/ Janet Mathews</u> Janet Mathews	Chief Financial Officer (Principal Financial Officer)	March 13, 2006
<u>/s/ Michael Frazho</u> Michael Frazho	Controller (Principal Accounting Officer)	March 13, 2006

GAIAM, INC.

AMENDED AND RESTATED
BYLAWS
INCLUDING CHANGES THROUGH MARCH 8, 2006

ARTICLE I

Offices and Agents

- 1. Principal Office.** The principal office of the Corporation shall be located in Broomfield, Colorado, or elsewhere within or without the State of Colorado, as may be subsequently designated by the Board of Directors. The Corporation may have other offices and places of business at such places within or without the State of Colorado as shall be determined by the directors or as the business of the Corporation may require from time to time.
- 2. Registered Office.** The registered office of the Corporation required by the Colorado Business Corporation Act must be continually maintained in the State of Colorado, and it may be, but need not be, identical with the principal office, if located in the State of Colorado. The address of the registered office of the Corporation may be changed from time to time as provided by the Colorado Business Corporation Act.
- 3. Registered Agent.** The Corporation shall maintain a registered agent in the State of Colorado as required by the Colorado Business Corporation Act. Such registered agent may be changed from time to time as provided by the Colorado Business Corporation Act.

ARTICLE II

Shareholders Meetings

- 1. Annual Meetings.** The annual meeting of the shareholders shall be held for the purpose of electing directors and transacting such other corporate business as may come before the meeting. The date, time and place of the annual meeting shall be determined by resolution of the Board of Directors. If the election of directors is not held as provided herein at any annual meeting of the shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as it may conveniently be held.
- 2. Special Meetings.** Unless otherwise prescribed by the Colorado Business Corporation Act, special meetings of the shareholders of the Corporation may be called at any time by the chairman of the Board of Directors, by the chief executive officer, by the president, by resolution of the Board of Directors or upon receipt of one or more written demands for a meeting, stating the purpose or purposes for which it is to be held, signed and dated by the holders of at least ten percent (10%) of all votes entitled to be cast on any issue proposed to be considered at the meeting. Notice of a special meeting shall include a description of the purpose or purposes for which the meeting is called.
- 3. Place of Meeting.** The annual meeting of the shareholders of the Corporation may be held at any place, either within or without the State of Colorado, as may be designated by the Board of Directors. Except as limited by the following sentence, the person or persons calling any special meeting of the shareholders may designate any place, within or without the State of Colorado, as the place for the meeting. If no designation is made or if a special meeting shall be called other than by the Board of Directors, the chairman of the Board of Directors, the chief executive officer or the president, the place of meeting shall be the principal office of the Corporation.
- 4. Notice of Meeting.** Except as otherwise provided in these Bylaws or by the Colorado Business Corporation Act, notice stating the date, time and place of the meeting shall be given no fewer than ten (10) and

no more than sixty (60) days before the date of the meeting, except that if the number of authorized shares is to be increased, at least thirty (30) days' notice shall be given. Notice shall be given personally or by mail, private carrier, telephone (if reasonable under the circumstances), telegraph, teletype, electronically transmitted facsimile or other form of wire or wireless communication by or at the direction of the chief executive officer, the president, the secretary, or the officer or other person calling the meeting to each shareholder of record entitled to vote at such meeting. If mailed and if in a comprehensible form, such notice shall be deemed to be given and effective when deposited in the United States mail, addressed to the shareholder at his or her address as it appears in the Corporation's current record of shareholders, with postage prepaid. If notice is given other than by mail, and provided that the notice is in comprehensible form, the notice is given and effective on the date received by the shareholder. No notice need be sent to any shareholder if three successive notices mailed to the last known address of such shareholder have been returned as undeliverable until such time as another address for such shareholder is made known to the Corporation by such shareholder.

When a meeting is adjourned to a different date, time or place, notice need not be given of the new date, time or place if the new date, time or place is announced at the meeting before adjournment. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 120 days, or if a new record date is fixed for the adjourned meeting, a new notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting as of the new record date.

5. **Fixing of Record Date.** The Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period, but not to exceed, in any case, fifty (50) days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders such books shall be closed for at least ten (10) days immediately preceding said meeting. The Board of Directors may fix in advance a date as the record date for the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend or in order to make a determination of shareholders for any other proper purpose, such date in any case to be not more than seventy (70) days before the meeting or action requiring a determination of shareholders. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders or shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Section such determination shall apply to any adjournment thereof.

Notwithstanding the foregoing, the record date for determining the shareholders entitled to take action without a meeting or entitled to be given notice of action so taken shall be the date a writing upon which the action is taken is first received by the Corporation. The record date for determining shareholders entitled to demand a special meeting shall be the date of the earliest of the demands pursuant to which the meeting is called.

6. **Shareholders List.** The officer or agent having charge of the stock transfer books for share of the Corporation shall make, at least ten (10) days before each meeting of shareholders, or two business days after notice of the meeting is given and continuing through the meeting and any adjournment thereof, a complete list of the shareholders entitled to vote at such meeting (or any adjournment thereof) arranged in alphabetical order by voting groups and within each voting group by class or series, with the address of and the number of shares held by each, which list shall be kept on file at the principal office of the Corporation or at a place identified in the notice of the meeting in the city where the meeting will be held. A shareholder, his agent or attorney shall be entitled upon written demand to inspect and copy the list during regular business hours, during the period it is available for inspection, provided, (i) the shareholder has been a shareholder for at least three (3) months immediately preceding the demand or holds at least five percent (5%) of all outstanding shares of any class of shares as the date of the demand, (ii) the demand is made in good faith and for a purpose reasonably related to the demanding shareholder's interest as a shareholder, (iii) the shareholder describes with reasonable particularity the purpose and records the shareholder desires to inspect, (iv) the records are directly connected with the described purpose and (v) the shareholder pays a reasonable charge covering the costs of labor and material for such copies, not to exceed the cost of production and reproduction. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder for any purpose germane to the meeting during the whole time of the meeting. The original stock transfer books shall be prima facie evidence as to who are the shareholders entitled to examine such list or transfer books or to vote at any meeting of shareholders.

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7. **Notice of Business.** At any meeting of the shareholders of the Corporation, only such proper business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any shareholder of the Corporation who is a shareholder of record at the time of giving of the notice provided for in this Section 7, who shall be entitled to vote at such meeting and who complies with the notice procedures set forth in this Section 7. For business to be brought before a meeting of shareholders by a shareholder, the shareholder shall have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive office of the Corporation (i) in the case of the annual meeting of the Corporation's shareholders commencing in 2001 and thereafter (other than an annual meeting in which the date of the meeting has been changed by more than 30 days from the prior year), not less than 45 nor more than 70 days before the date on which the Corporation first mailed its proxy materials for the prior year's annual meeting of shareholders, or (ii) in the case of any other meeting of the Corporation's shareholders, not less than 50 nor more than 75 days prior to the meeting; provided, however, that in the event that less than 60 days' notice or prior public disclosure of the date of such other meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of such other meeting was mailed or such public disclosure was made, whichever first occurs. Such shareholder's notice to the Secretary of the Corporation shall set forth as to each matter the shareholder proposes to bring before the meeting (i) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and, in the event that such business includes a proposal to amend any document, including these Bylaws, the language of the proposed amendment, (ii) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such shareholder and (iv) any material interest of such shareholder in such business. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at a meeting of the shareholders except in accordance with the procedures set forth in this Section 7. The chairman of the meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of these Bylaws, and if he or she should so determine, the chairman shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 7, a shareholder shall also comply with all applicable requirements of the Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder with respect to matters set forth in this Section 7.

8. **Proxies.** At all meetings of shareholders, a shareholder may vote in person or by proxy by signing an appointment form either personally or by his duly authorized attorney-in-fact. A shareholder may also appoint a proxy by transmitting or authorizing the transmission of a telegram, teletype, or other electronic transmission providing a written statement of the appointment to the proxy, to a proxy solicitor, proxy support service organization or other person duly authorized by the proxy to receive appointments as agent for the proxy, or to the Corporation. The transmitted appointment shall set forth or be transmitted with written evidence from which it can be determined that the shareholder transmitted or authorized the transmission of the appointment. The proxy appointment form shall be filed with the Secretary of the Corporation by or at the time of the meeting. The appointment of a proxy is effective when

received by the Corporation and is valid for eleven (11) months unless a different period is expressly provided in the appointment form.

Any complete copy, including an electronically transmitted facsimile, of an appointment of a proxy may be substituted for or used in lieu of the original appointment for any purpose for which the original appointment could be used.

Revocation of a proxy does not affect the right of the Corporation to accept the proxy's appointment unless (i) the Corporation had notice that the appointment was coupled with an interest and notice that the interest is extinguished is received by the Secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment or (ii) other notice of the revocation of the appointment is received by the Secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment. Other notice of revocation may, in the discretion of the Corporation, be deemed to include the appearance at a shareholders meeting of the shareholder who granted the proxy appointment and his voting in person on any matter subject to a vote at such meeting.

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The death or incapacity of the shareholder appointing a proxy does not affect the right of the Corporation to accept the proxy's authority unless notice of the death or incapacity is received by the Secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment.

The Corporation shall not be required to recognize an appointment made irrevocable if it has received a writing revoking the appointment signed by the shareholder either personally or by the shareholder's attorney-in-fact, notwithstanding that the revocation may be a breach of an obligation of the shareholder to another person not to revoke the appointment.

A transferee for value of shares subject to an irrevocable appointment may revoke the appointment if the transferee did not know of its existence when he acquired the shares and the existence of the irrevocable appointment was not noted on the certificate representing the shares.

Subject to the provisions of this Article II, Section 10 below or any express limitation on the proxy's authority appearing on the appointment form, the Corporation is entitled to accept the proxy's vote or other action as that of the shareholder making the appointment.

9. Voting Rights. Except as otherwise provided in the Articles of Incorporation, each outstanding share, regardless of class, shall be entitled to one vote and each fractional share is entitled to a corresponding fractional vote on each matter submitted to a vote at a meeting of shareholders.

At each election for directors every shareholder of record entitled to vote at such election shall have the right to vote in person or by proxy the number of votes to which such shareholder is entitled for as many persons as there are directors to be elected and for whose election he has a right to vote. Cumulative voting shall not be permitted for any purpose.

Shares held by another corporation, if the majority of shares entitled to vote for the election of directors of such other corporation are held by the Corporation, shall be voted at any meeting or counted in determining the total number of outstanding shares entitled to vote at any given time. Except as provided in the preceding sentence, shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent or proxy as the Bylaws of such corporation may prescribe or, in the absence of such provision, as the Board of Directors of such corporation may determine, or in the absence of such determination, by the chief executive officer of such corporation.

If shares having voting power stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, voting with respect to the shares shall have the following effect: (i) if only one person votes, his act binds all; (ii) if two or more persons vote, but the vote is evenly split on any particular matter, each faction may vote the shares in question proportionately, or any person voting the shares of a beneficiary, if any, may apply to any court of competent jurisdiction in the State of Colorado to appoint an additional person to act with the persons voting the shares. The shares shall then be voted as determined by a majority of such persons and the person appointed by the court. If a tenancy is held in unequal interests, a majority or even split for the purpose of this subsection shall be a majority or even split in interest, except that the effects of voting stated above shall not be applicable if the secretary of the Corporation is given written notice of alternative voting provisions and is furnished with a copy of the instrument or order wherein the alternate voting provisions are stated.

Shares held by an administrator, executor, guardian or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority so to do be contained in an appropriate order of the court by which such receiver was appointed.

10. Corporation's Acceptance of Votes. If the name signed on a vote, consent, waiver, proxy appointment, or proxy appointment revocation corresponds to the name of a shareholder, the Corporation, if acting in

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good faith, is entitled to accept the vote, consent, waiver, proxy appointment, or proxy appointment revocation and to give it effect as the act of the shareholder. If the name signed on a vote, consent, waiver, proxy appointment, or proxy appointment revocation does not correspond to the name of a shareholder, the Corporation, if acting in good faith, is nevertheless entitled to accept the vote, consent, waiver, proxy appointment, or proxy appointment revocation and to give it effect as the act of the shareholder if:

- (a) The shareholder is an entity and the name signed purports to be that of an officer or agent of the entity;
- (b) The name signed purports to be that of an administrator, executor, guardian, or conservator representing the shareholder and, if the Corporation requests, evidence of fiduciary status acceptable to the Corporation has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;
- (c) The name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the Corporation requests, evidence of this status acceptable to the Corporation has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;
- (d) The name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the Corporation requests, evidence acceptable to the Corporation of the signatory's authority to sign for the shareholder has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;
- (e) Two or more persons are the shareholder as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-tenants or fiduciaries and the person signing appears to be acting on behalf of all the co-tenants or fiduciaries; or
- (f) The acceptance of the vote, consent, waiver, proxy appointment or proxy appointment revocation is otherwise proper under rules established by the Corporation that are not inconsistent with the provisions of this Section 10.

The Corporation is entitled to reject a vote, consent, waiver, proxy appointment, or proxy appointment revocation if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

The Corporation and its officer or agent who accepts or rejects a vote, consent, waiver, proxy appointment or proxy appointment revocation in good faith and in accordance with the standards of this Section 10 are not liable in damages for the consequences of the acceptance or rejection.

11. Quorum and Voting Requirements for Voting Groups. The provisions of Section 7-107-206 of the Colorado Business Corporation Act shall govern quorums and other voting requirements for shareholders.

12. Adjournments. If less than a quorum of shares entitled to vote is represented at any meeting of the shareholders, a majority of the shares so represented may adjourn the meeting from time to time without further notice, for a period not to exceed one hundred twenty (120) days at any one adjournment. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. Any meeting of the shareholders may adjourn from time to time until its business is completed.

13. Action by Shareholders Without Meeting. Shareholders may not take any action without a meeting, whether by written consent or otherwise.

14. Meetings by Telecommunication. Any or all of the shareholders may participate in an annual or special shareholders' meeting by, or the meeting may be conducted through the use of, any means of communication by which all persons participating in the meeting may hear each other during the meeting. A shareholder participating in a meeting by this means is deemed to be present in person at the meeting.

ARTICLE III

Board of Directors

1. Number, Qualifications and Term of Office. Except as otherwise provided in the Articles of Incorporation or the Colorado Business Corporation Act, the business and affairs of the Corporation shall be managed by a Board of Directors, consisting of a number of directors set by the Board of Directors. Each director shall be a natural person of the age of eighteen years or older, but does not need to be a resident of the State of Colorado or a shareholder of the Corporation. The Board of Directors, by resolution, may increase or decrease the number of directors from time to time. Except as otherwise provided in these Bylaws, each director shall be elected at each annual meeting of shareholders and shall hold such office until the next annual meeting of shareholders and until his successor shall be elected and shall qualify. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

2. Performance of Duties. Pursuant to the provisions of the Colorado Business Corporation Act, a director shall perform his duties as a director, including his duties as a member of any committee of the Board of Directors upon which he may serve, in

good faith, in a manner he reasonably believes to be in the best interests of the Corporation, and with such care as an ordinarily prudent person in a like position would use under similar circumstances.

3. **Vacancies.** Any director may resign at any time by giving written notice to the chairman of the Board of Directors and to the chief executive officer, president or secretary of the Corporation. A resignation of a director is effective when the notice is received by the Corporation unless the notice specifies a later effective date. Unless otherwise specified in the notice, the acceptance of such resignation by the Corporation shall not be necessary to make it effective. Any vacancy on the Board of Directors may be filled by the affirmative vote of a majority of the remaining Board of Directors even if less than a quorum is remaining in office. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office. Any directorship to be filled by reason of an increase in the number of directors shall be filled by the affirmative vote of a majority of the directors then in office or by an election at an annual meeting or special meeting of shareholders called for that purpose. A director elected to fill a position resulting from an increase in the number of directors shall hold office until the next annual meeting of shareholders and until his or her successor has been elected and qualified.

4. **Removal.** At a meeting of shareholders called expressly for that purpose, the entire Board of Directors or any individual director may be removed from office without assignment of cause by the vote of the majority of the shares entitled to vote in an election of directors.

5. **Removal of Directors by Judicial Proceeding.** A director may be removed by the district court of the county where the principal office is located or, if the Corporation has no principal office in the State of Colorado, by the district court of the county in which its registered office is located, upon a finding by the district court that the director engaged in fraudulent or dishonest conduct or gross abuse of authority or discretion with respect to the Corporation and that removal is in the best interests of the Corporation. The judicial proceeding may be commenced either by the Corporation or by shareholders holding at least ten percent (10%) of the outstanding shares of any class.

6. **Election of Directors.** Except as provided in this Section 6 of this Article and subject to the right to elect additional directors under specified circumstances which may be granted, pursuant to the provisions of Article Four of the Articles of Incorporation of the Corporation, to the holders of any class or series of preferred stock, directors shall be elected by a plurality of the votes cast at annual meetings of shareholders, and each director so elected shall hold office until his successor is duly elected and qualified, or until his earlier resignation or removal. Directors need not be shareholders. Only persons who are nominated in accordance with the following procedures shall be eligible for election by the shareholders as directors of the Corporation. Nominations of persons for election as directors of the Corporation may be made at a meeting of shareholders (a) by or at the direction of the Board of Directors, (b) by any nominating committee or persons appointed by the Board of Directors or (c) by any shareholders of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 6. Such nominations, other than those made by or at the direction of the Board of Directors or any nominating committee or persons appointed by the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the

principal executive office of the Corporation (i) in the case of the annual meeting of the Corporation's shareholders commencing in 2001 and thereafter (other than an annual meeting in which the date of the meeting has been changed by more than 30 days from the prior year), not less than 45 nor more than 70 days before the date on which the Corporation first mailed its proxy materials for the prior year's annual meeting of shareholders, or (ii) in the case of any other meeting of the Corporation's shareholders, not less than 50 nor more than 75 days prior to the meeting; provided, however, that in the event that less than 60 days' notice or prior public disclosure of the date of such other meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of such other meeting was mailed or such public disclosure was made, whichever first occurs. Such shareholder's notice to the Secretary of the Corporation shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the corporation which are beneficially owned by the person and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Rule 14a under the Securities Exchange Act of 1934, as now or hereafter amended; and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder and (ii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such shareholder. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a director of the Corporation. No person shall be eligible for election by the shareholders as a director of the Corporation unless nominated in accordance with the procedures set forth herein. The chairman of the meeting of the shareholders shall, if the facts warrant, determine and declare to the meeting that nomination was not made in accordance with the foregoing procedure, and if he or she should so determine, the chairman shall so declare to the meeting and the defective nomination shall be disregarded.

7. **Compensation.** By resolution of the Board of Directors, any director may be paid any one or more of the following: his expenses, if any, of attendance at meetings; a fixed sum for attendance at each meeting; a stated salary as director; or such other compensation as the Corporation and the director may reasonably agree upon. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV

Meetings of the Board

1. **Place of Meetings.** The regular or special meetings of the Board of Directors or of any committee designated by the Board of Directors shall be held at the principal office of the Corporation or at any other place within or without the State of Colorado that a majority of the Board of Directors or of any such committee, as the case may be, may designate from time to time by resolution.

2. **Regular Meetings.** Unless otherwise agreed to by the Board of Directors, the Board of Directors shall meet each year immediately before or after and at the same place as the annual meeting of the shareholders for the purpose of electing officers and transacting such other business as may come before the meeting. The Board of Directors or any committee designated by the Board of Directors may provide, by resolution, for the holding of additional regular meetings without other notice than such resolution.

3. **Special Meetings.** Special meetings of the Board of Directors or of any committee designated by the Board of Directors may be called at any time by the chairman of the Board, if any, by the chief executive officer, or by three or more members of the Board of Directors or of any such committee, as the case may be, provided that if any such committee consists of less than four members, then a special meeting of such committee may be called by a majority of the members thereof.

4. **Notice of Meetings.** Notice of the regular meetings of the Board of Directors or of any committee designated by the Board of Directors need not be given. Except as otherwise provided by these Bylaws or the laws of the State of Colorado, written notice of each special meeting of the Board of Directors or of any such committee setting forth the time and the place of the meeting shall be given to each director not less than one (1) day prior to the date and time fixed for the meeting. Notice of any special meeting may be either personally delivered or mailed to each director at his business address, by telephone (if reasonable under the circumstances) or by notice transmitted by

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telegraph, electronically transmitted facsimile or other form of wire or wireless communication. If mailed, such notice shall be deemed to be given and to be effective on the earlier of (i) three (3) days after such notice is deposited in the United States mail properly addressed, with postage prepaid, or (ii) the date shown on the return receipt if mailed by registered or certified mail return receipt requested. If notice be given by telephone (if reasonable under the circumstances), electronically transmitted facsimile or other similar form of wire or wireless communication, such notice shall be deemed to be given and to be effective when sent, and with respect to a telegram, such notice shall be deemed to be given and to be effective when the telegram is delivered to the telegraph company. If a director has designated in writing one or more reasonable addresses or facsimile numbers for delivery of notice to him, notice sent by mail, telegraph, electronically transmitted facsimile or other form of wire or wireless communication shall not be deemed to have been given or to be effective unless sent to such addresses or facsimile numbers, as the case may be. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

5. **Waiver of Notice.** A director may waive notice of a meeting of the Board of Directors or of any committee designated by the Board of Directors either before, at, or after the meeting. Such waiver shall be in writing and signed by the director and delivered to the Corporation for filing with the corporate records, but such delivery and filing shall not be a condition to the effectiveness of the waiver. Attendance or participation of a director at a meeting waives any required notice of that meeting unless at the beginning of the meeting or promptly upon the director's arrival, the director objects to holding the meeting or transacting business at the meeting because of lack of notice or defective notice and does not thereafter vote for or assent to action taken at the meeting, or if special notice was required of a particular purpose pursuant to this Section 5, the director objects to transacting business with respect to the purpose for which such special notice was required and does not thereafter vote for or assent to action taken at the meeting with respect to such purpose.

6. **Quorum.** At meetings of the Board of Directors or of any committee designated by the Board of Directors a majority of the number of directors fixed by these Bylaws, or a majority of the members of any such committee, as the case may be, shall be necessary to constitute a quorum for the transaction of business. If the number of directors is not fixed, then a majority of the number in office immediately before the meeting begins, shall constitute a quorum. If a quorum is present, the act of the majority of directors present shall be the act of the Board of Directors or of any such committee, as the case may be, unless the act of a greater number is required by these Bylaws, the Articles of Incorporation or the Colorado Business Corporation Act.

7. **Presumption of Assent.** A director who is present at a meeting of the Board of Directors or a committee thereof when action is taken is deemed to have assented to the action taken unless:

(a) the director objects at the beginning of such meeting or promptly upon his arrival, to the holding of the meeting or the transacting of business at the meeting and does not thereafter vote for or assent to any action taken at the meeting;

(b) the director contemporaneously requests that his dissent or abstention as to any specific action taken be entered in the minutes of such meeting; or

(c) the director causes written notice of his dissent or abstention as to any specific action to be received by the chairman of the Board, if any, or the presiding officer of such meeting before adjournment of the meeting or by the Corporation promptly after adjournment of the meeting.

The right of dissent or abstention pursuant to this Section 7 as to a specific action is not available to a director who votes in favor of the action taken.

8. **Committees.** The Board of Directors may, by a majority of the full Board of Directors, designate one (1) or more of its members to constitute an executive committee and one or more other committees, each of which shall have and may exercise

all of the authority of the Board of Directors or such lesser authority as may be set forth in said resolution; except that no such committee shall have the authority of the Board of Directors to: (i) declare dividends or distributions; (ii) approve or recommend to shareholders actions or proposals required to be approved by shareholders; (iii) fill vacancies on the Board of Directors or any committee thereof; (iv) amend these Bylaws or the Articles of Incorporation; (v) approve a plan of merger not requiring shareholder approval; (vi) authorize or approve the reacquisition of shares unless pursuant to a general formula method specified by the Board of Directors; or (vii)

authorize or approve the issuance or sale of, or any contract to issue or sell shares or designate the terms of a series of a class of shares and except that the Board of Directors, having acted regarding general authorization for the issuance or sale of shares or any contract therefor, may pursuant to a general formula or method specified by the Board of Directors by resolution or by adoption of a stock option or other plan, authorize a committee to fix the terms of any contract for the sale of the shares and to fix the terms upon which such shares may be issued or sold, including, without limitation, the price, the dividend rate, provisions for redemption, sinking fund, conversion, or voting or preferential rights, and provisions for other features of a class of shares or a series of a class of shares, with full power in such committee to adopt any final resolution setting forth all terms thereof and to authorize the statement of the terms of a series for filing with the Secretary of State of the State of Colorado under the Colorado Business Corporation Act. If any such delegation of the authority of the Board of Directors is made as provided herein, all references to the Board of Directors contained in these Bylaws, the Articles of Incorporation, the Colorado Business Corporation Act or any other applicable law or regulation relating to the authority so delegated shall be deemed to refer to such committee.

Neither the designation of any such committee, the delegation of authority to such committee, nor any action by such committee pursuant to its authority shall alone constitute compliance by any member of the Board of Directors, not a member of the committee in question, with his responsibility to act in good faith, in a manner he reasonably believes to be in the best interests of the Corporation, and with such care as an ordinarily prudent person in a like position would use under similar circumstances.

9. Action by Directors without a Meeting. Any action required or permitted be taken at a Board of Directors' meeting or a meeting of any committee thereof may be taken without a meeting if all members thereof consent to such action in writing. Action is taken under this Section 9 at the time the last director signs a writing describing the action taken, unless, before such time, a director has revoked his consent by a writing signed by the director and received by the chief executive officer and secretary. Action taken pursuant to this Section 9 has the same effect as action taken at a meeting of the directors or committee members and may be described as such in any document.

10. Meetings. One or more members of the Board of Directors or any committee designated by the Board of Directors may participate in a regular or special meeting by or conduct the meeting through the use of any means of communication by which all directors participating may hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

ARTICLE V

Standards of Conduct

In discharging his duties, a director or officer is entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by (i) one or more officers or employees of the Corporation whom the director or officer reasonably believes to be reliable and competent in the matters presented, (ii) legal counsel, a public accountant, or other person as to matters which the director or officer reasonably believes to be within such persons' professional or expert competence, or (iii) in the case of a director, a committee of the Board of Directors of which the director is not a member if the director reasonably believes the committee merits confidence.

A director or officer is not liable as such to the Corporation or its shareholders for any action he takes or omits to take as a director or officer, as the case may be, if, in connection with such action or omission, he performed the duties of the position in compliance with this Article V.

ARTICLE VI

Officers and Agents

1. General. The officers of the Corporation shall consist of a chairman of the Board, a chief executive officer, a president and a secretary and, in the discretion of the Board, a treasurer; in addition, one or more vice presidents, and such other officers, assistant officers, agents and employees that the Board of Directors may from time to time deem necessary may be elected by the Board of Directors or be appointed in a manner prescribed by the Board. Two or more offices may be held by the same person. Officers shall hold office until their successors are chosen and have qualified, unless they are sooner removed from office as provided in these Bylaws. All officers of the Corporation shall be natural persons of the age of eighteen years or older. Officers of the Corporation need not be residents of the State of Colorado or directors or shareholders of the Corporation.

2. General Duties. All officers and agents of the Corporation, as between themselves and the Corporation, shall have such authority and shall perform such duties in the management of the Corporation as may be provided in these Bylaws or as may be

determined by resolution of the Board of Directors not inconsistent with these Bylaws. In all cases where the duties of any officer, agent or employee are not prescribed by the Bylaws or by the Board of Directors, such officer, agent or employee shall follow the orders and instructions of the chief executive officer.

3. **Vacancies.** When a vacancy occurs in one of the executive offices by reason of death, resignation or otherwise, it shall however be filled by a resolution of the Board of Directors. The officer so selected shall hold office until his successor is chosen and qualified.

4. **Salaries.** The salaries of the officers, agents and employees of the Corporation may be fixed by the Board of Directors, or by any committee designated by the Board or, in the absence of contrary resolution or action by the Board, by the chief executive officer.

5. **Resignation.** An officer may resign at any time by giving written notice of resignation to the Corporation. A resignation of an officer is effective when the notice is received by the Corporation unless the notice specifies a later effective date. If a resignation is made effective at a later date, the Board of Directors may permit the officer to remain in office until the effective date and may fill the pending vacancy before the effective date if the Board of Directors provides that the successor does not take office until the effective date, or the Board of Directors may remove the officer at any time before the effective date and may fill the resulting vacancy.

6. **Removal.** Any officer, agent or employee of this Corporation may be removed with or without cause by the Board of Directors or the chief executive officer whenever in its judgment it is in the best interests of the Corporation, without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer, agent or employee shall not, of itself, create contract rights.

7. **Chairman of the Board.** The Chairman shall preside as chairman at meetings of the shareholders and the Board of Directors. The Chairman shall, subject to the direction and supervision of the Board of Directors, be the most senior officer of the Corporation and shall have primary, general and active control of its affairs and business and general supervision of its officers, agents and employees. The Chairman shall have authority to expend Corporation funds, to incur debt on behalf of the Corporation, and to acquire and dispose of property, real and personal, tangible and intangible. The Chairman shall attend in person or by substitute appointed by him, or shall execute on behalf of the Corporation written instruments appointing a proxy or proxies to represent the Corporation at all meetings of the shareholders of any other corporation in which the Corporation shall hold any stock. He may, on behalf of the Corporation, in person or by substitute or by proxy, execute written waivers of notice and consents with respect to any such meetings. At all such meetings and otherwise, the Chairman, in person or by substitute or by proxy as aforesaid, may vote the stock so held by the Corporation and may execute written consents and other instruments with respect to such stock and may exercise any and all rights and powers incident to the ownership of said stock. The Chairman shall have custody of the treasurer's bond, if any.

8. **Chief Executive Officer.** The chief executive officer shall, subject to the direction and supervision of the Chairman, be the next most senior officer of the Corporation after the Chairman and shall assist the

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Chairman, and shall perform such duties as may be assigned to him from time to time by the Chairman. In the case of the chief executive officer's absence or inability to act the President may exercise such powers and perform such duties.

9. **President.** The president shall assist the chief executive officer, as directed by the Board of Directors or the chief executive officer, and shall perform such duties as may be assigned to him from time to time by the Board of Directors or the chief executive officer. If the office of chief executive officer is vacant, the president shall have the powers and perform the duties of chief executive officer until such vacancy is filled by the Board of Directors.

10. **Vice Presidents.** Each vice president shall have such powers and perform such duties as the Board of Directors may from time to time prescribe or as the chief executive officer may from time to time delegate to him. At the request of the chief executive officer, in the case of the president's absence or inability to act, any vice president may temporarily act in the president's place. In the case of the death of the president, or in the case of his absence or inability to act without having designated a vice president or vice presidents to act temporarily in his place, the Board of Directors, by resolution, may designate a vice president or vice presidents, to perform the duties of the president.

11. **Secretary.** The secretary shall keep or cause to be kept in books, provided for that purpose, the minutes of the meetings of the shareholders, executive committee, if any, and any other committees, and of the Board of Directors; shall see that all notices are duly given in accordance with the provisions of these Bylaws and as required by law; shall be custodian of the records and of the seal of the Corporation and see that the seal is affixed to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized and in accordance with the provisions of these Bylaws; and, in general, shall perform all duties incident to the office of secretary and such other duties as may, from time to time, be assigned to him by the Board of Directors or by the president. In the absence of the secretary or his inability to act, the assistant secretaries, if any, shall act with the same powers and shall be subject to the same restrictions as are applicable to the secretary.

12. **Treasurer.** The treasurer shall have custody of corporate funds and securities. He shall keep full and accurate accounts of receipts and disbursements and shall deposit all corporate monies and other valuable effects in the name and to the credit of the Corporation in the depository or depositories of the Corporation, and shall render an account of his transactions as treasurer and of the financial condition of the Corporation to the chief executive officer, president and/or the Board of Directors upon request. Such power given to the treasurer to deposit and disburse funds shall not, however, preclude any other officer or employee of the Corporation from also depositing and disbursing funds when authorized to do so by the Board of Directors. The treasurer shall, if required by the Board of

Directors, give the Corporation a bond in such amount and with such surety or sureties as may be ordered by the Board of Directors for the faithful performance of the duties of his office. The treasurer shall have such other powers and perform such other duties as may be from time to time prescribed by the Board of Directors or the chief executive officer or such other person appointed from time to time by the chief executive officer. In the absence of the treasurer or his inability to act, the assistant treasurers, if any, shall act with the same authority and shall be subject to the same restrictions as are applicable to the treasurer.

13. Delegation of Duties. Whenever an officer is absent, or whenever, for any reason, the Board of Directors may deem it desirable, the Board of Directors may delegate the powers and duties of an officer to any other officer or officers or to any director or directors.

ARTICLE VII

Conflicts of Interests

No contract or other transaction between the Corporation and one or more of its directors, or any other corporation, partnership, association or other organization in which one or more of its directors or officers is a director or officer or is financially interested shall be either void or voidable solely for that reason or solely because such director or officer is present at or participates in the meeting of the Board of Directors or a committee thereof that authorizes, approves, or ratifies such contract or transaction or solely because their votes are counted for such purpose if:

(A) The material facts of such relationship, interest, contract or transaction are disclosed to or known by the Board of Directors or a committee thereof, that in good faith authorizes, approves, or ratifies the

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contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors are less than a quorum;

(B) The material facts of such relationship, interest, contract or transaction are disclosed to or known by the shareholders entitled to vote thereon, and the contract or transaction is specifically authorized, approved or ratified in good faith by vote of the shareholders; or

(C) The contract or transaction is fair as to the Corporation.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or a committee thereof which authorizes, approves or ratifies such contract or transaction.

The Board of Directors shall comply with any applicable provisions of Section 7-108-501 of the Colorado Business Corporation Act in connection with any loan or guaranty by the Corporation.

ARTICLE VIII

Indemnification of Officers, Directors and Others

1. Definitions. Unless the context of this Article VIII indicates otherwise, initially capitalized terms used herein shall have the meanings given in Section 7-109-101 of the Colorado Business Corporation Act.

2. Standards for Indemnification

A. General. Except as provided in Subsection 2(D) below, the Corporation shall indemnify against Liability, to the fullest extent authorized by the Colorado Business Corporation Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than permitted prior thereto), incurred in any Proceeding by an individual made a Party to the Proceeding because he is or was a Director of the Corporation or any subsidiary of the Corporation (an "Indemnitee") if: (a) he conducted himself in good faith; (b) he reasonably believed: (i) in the case of conduct in his Official capacity with the Corporation, that his conduct was in the Corporation's best interests; or (ii) that in all other cases, that his conduct was at least not opposed to the Corporation's best interests; and (c) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful.

B. Employee Benefit Plans. An Indemnitee's conduct with respect to an employee benefit plan for a purpose he reasonably believed to be in the interests of the participants in or beneficiaries of the plan is conduct that satisfies the requirements of clause (b) (ii) of paragraph 2, subsection A above. An Indemnitee's conduct with respect to an employee benefit plan for a purpose that he did not reasonably believe to be in the interests of the participants in or beneficiaries of the plan shall be deemed not to satisfy the requirements of clause (b)(ii) of paragraph 2, subsection A above.

C. Termination of a Proceeding. The termination of any proceeding by judgment, order, settlement, or conviction, or upon a plea of nolo contendere or its equivalent, is not of itself determinative that the Indemnitee did not meet the standard of conduct set forth in paragraph 2, subsection A above.

D. Cases in Which Indemnification is Prohibited. The Corporation may not indemnify an Indemnitee under paragraph 2, subsection A above, either (a) in connection with a Proceeding by or in the right of the Corporation in which the Indemnitee

was adjudged liable to the Corporation; or (b) in connection with any Proceeding charging improper personal benefit to the Indemnitee, whether or not involving action in his Official capacity, in which he was adjudged liable on the basis that personal benefit was improperly received by him.

E. Reasonable Expenses Only. Indemnification permitted under this Section B in connection with a Proceeding by or in the right of the Corporation is limited to reasonable expenses incurred in connection with the Proceeding.

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F. Application of Indemnification Obligations. The indemnity and prepayment obligations of the Corporation and the standards for indemnification set forth in this Article VIII shall apply in all cases, even if the conduct, act or omission in question occurred prior to the date that such indemnity and prepayment obligations were adopted by the Corporation by amendment to these Bylaws.

3. Mandatory Indemnification. Unless limited by the articles of incorporation, the Corporation shall be required to indemnify an Indemnitee who was wholly successful, on the merits or otherwise, in the defense of any Proceeding to which he was a Party because he is or was a director, against reasonable expenses incurred by him in connection with the Proceeding.

4. Court Ordered Indemnification. Unless otherwise provided in the articles of incorporation, an Indemnitee who is or was a Party to a Proceeding may apply for indemnification to the court conducting the Proceeding or to another court of competent jurisdiction. On receipt of an application, the court, after giving any notice the court considers necessary, may order indemnification in the following manner:

A. Mandatory Indemnification. If it determines the Indemnitee is entitled to mandatory indemnification under paragraph 3 above, the court shall order indemnification, in which case the court shall also order the Corporation to pay the Indemnitee's reasonable expenses incurred to obtain court-ordered indemnification.

B. Indemnification Where Regardless of Meeting Standard of Conduct. If it determines that the Indemnitee is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not he met the standard of conduct set forth in paragraph 2, subsection A of this Article VIII or was adjudged liable in the circumstances described in paragraph 2, subsection D of this Article VIII, the court may order such indemnification as the court deems proper; except that the indemnification with respect to any Proceeding in which liability shall have been adjudged in the circumstances described in said paragraph 2, subsection D of this Article VIII is limited to reasonable expenses incurred in connection with the proceeding and reasonable expenses incurred to obtain court-ordered indemnification.

5. Indemnification Procedure.

A. Authorization of Indemnification Required. The Corporation may not indemnify an Indemnitee under paragraph 2, subsection A of this Article VIII unless authorized in the specific case after a determination has been made that indemnification of the Indemnitee is permissible in the circumstances because he has met the standard of conduct set forth in paragraph 2 of this Article VIII.

B. Determination by the Board of Directors. The determination required by paragraph 5, subsection A of this Article VIII, shall be made: (a) by the Corporation's Board of Directors by a majority vote of those present at a meeting at which a quorum is present, and only those directors who are not parties to the Proceeding shall be counted in satisfying the quorum; or (b) if a quorum cannot be obtained, by a majority vote of a committee of the Board of Directors designated by the Board, which committee shall consist of two or more directors who are not parties to the proceeding; except that directors who are parties to the proceeding may participate in the designation of directors for the committee.

C. Determination by Body Other Than the Board of Directors. If a quorum cannot be obtained by a majority vote of a committee of the Board of Directors designated by the Board of Directors under paragraph 5, subsection B or even if a quorum is obtained or a committee is designated, if a majority of the directors constituting such quorum or committee so directs, the determination required to be made by subparagraph B of this section 5 shall be made: (a) by independent legal counsel selected by a vote of the Corporation's Board of Directors or the committee in the manner specified in clauses (a) or (b) of subparagraph B of this section 5 or, if a quorum of the full Board of Directors cannot be obtained and a committee cannot be established, by independent legal counsel selected by a majority vote of the full Board; or (b) by the shareholders.

D. Standard for Authorizing Indemnification. Authorization of indemnification and advance of reasonable expenses shall be made in the same manner as the determination that indemnification or advance of expenses is permissible; except that, if the determination that indemnification or advance of expenses is permissible is

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made by independent legal counsel, authorization of indemnification and advance of expenses shall be made by the body that selected such counsel.

6. Pre-Payment or Reimbursement of Expenses

A. General. The Corporation may pay for or reimburse the reasonable expenses incurred by an Indemnitee who is a Party to a Proceeding in advance of the final disposition of the Proceeding if: (a) the Indemnitee furnishes the Corporation a written affirmation of his good-faith belief that he has met the standard of conduct described in paragraph 2, subsection A of this Article; (b) the Indemnitee furnishes the Corporation a written undertaking, executed personally or on his behalf, to repay the advance if it is ultimately determined that he did not meet such standard of conduct; and (c) a determination is made that the facts then known to those making the determination would not preclude indemnification under this Article.

B. Undertaking. The undertaking required by paragraph (b) of subsection A of this Section, shall be an unlimited general obligation of the Indemnitee but need not be secured and may be accepted without reference to financial ability to make repayment.

C. Authorization of Pre-Payments. Determinations and authorizations of payments under this Section 6 shall be made in the manner specified in paragraph 5, subsection C of this Article VIII.

7. Expenses Incurred as a Witness. The Corporation shall pay or reimburse Expenses incurred by an Indemnitee in connection with his appearance, or preparation for his appearance, as a witness in a Proceeding or at a deposition related to a Proceeding, at a time when he has not been made a named defendant or respondent in the Proceeding. If the Indemnitee is not an officer or Director of the Company at the time his appearance is required at a Proceeding or deposition related to a Proceeding, the Company shall pay the Indemnitee \$500.00 for each day (or part thereof) that the Indemnitee is required to attend such Proceeding or deposition.

8. Officers, Employees, Fiduciaries and Agents. Unless otherwise provided in the articles of incorporation:

A. Officer Indemnification. An officer of the Corporation is entitled to mandatory indemnification under paragraph 3 of this Article VIII, and is entitled to apply for court-ordered indemnification under paragraph 4 of this Article VIII, in each case to the same extent as a director.

B. Indemnification and Advancement of Expenses. The Corporation may indemnify and advance expenses to an officer, employee, fiduciary or agent of the Corporation to the same extent as an Indemnitee; and

C. Greater Rights of Indemnification Permitted. The Corporation may also indemnify and advance expenses to an officer, employee, fiduciary or agent of the Corporation who is not an Indemnitee to a greater extent, not inconsistent with public policy, and if provided for by these bylaws, general or specific action of its board or shareholders, or directors.

9. Insurance. The Corporation may purchase and maintain insurance on behalf of a person who is or was a Director, officer, employee, fiduciary or agent of the Corporation, or who, while a Director, officer, employee, fiduciary or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, fiduciary or agent of another foreign or domestic corporation or other person or employee benefit plan against any liability asserted against or incurred by him in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article VIII. Any such insurance may be procured from any insurance company designated by the Board of Directors of the Corporation, whether such insurance company is formed under the laws of Colorado or any other jurisdiction of the United States or elsewhere, including any insurance company in which the Corporation has equity or any other interest, through stock ownership or otherwise.

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10. Report to Shareholders. Any indemnification of or advance of expenses to a Director in accordance with this Article VIII, if arising out of a proceeding by or on behalf of the Corporation, shall be reported in writing to the shareholders with or before the notice of the next shareholders' meeting. If the next shareholder action is taken without a meeting at the instigation of the Board of Directors, such notice shall be given to the shareholders at or before the time the first shareholder signs a writing consenting to such action.

11. Governing Law. This Article VIII shall be governed by and construed in accordance with Title 7, Article 109 of the Colorado Business Corporation Act, as amended from time to time.

12. Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Article VIII shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Corporation's Articles of Amendment and Restatement, agreement, vote of shareholders or disinterested directors or otherwise. To the extent that the rights to indemnification granted by these Bylaws are inconsistent with those granted by the Corporation's Articles of Amendment and Restatement, the provisions of these Articles of Amendment and Restatement shall govern.

ARTICLE IX

Share Certificates and the Transfer of Shares

1. Certificates Representing Shares. The shares shall be represented by certificates. Such certificates shall be in a form approved by the Board of Directors, consecutively numbered, and signed in the name of the Corporation by the chairman or vice chairman of the Board of Directors or by the chief executive officer, the president or a vice president and by the treasurer or an assistant treasurer or by the secretary or an assistant secretary, and shall be sealed with the seal of the Corporation or a facsimile thereof. Any or all of the signatures upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or an employee of the Corporation. In case any officer who has signed such certificate shall have ceased to be

such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the date of its issue.

2. **Issuance of Shares.** Except as provided in the Articles of Incorporation, the Board of Directors may authorize the issuance of shares for consideration consisting of any tangible, intangible property or benefit to the Corporation, including cash, promissory notes, services performed and other securities of the Corporation. The Board of Directors shall determine that the consideration received or to be received for the shares to be issued is adequate. Such determination, in the absence of fraud, is conclusive insofar as the adequacy of such consideration relates to whether the shares are validly issued, fully paid and nonassessable. The promissory note of a subscriber or an affiliate of a subscriber for shares shall not constitute consideration for the shares unless the note is negotiable and is secured by collateral other than the shares, having a fair market value at least equal to the principal amount of the note. For the purposes of this Section 2, "promissory note" means a negotiable instrument on which there is an obligation to pay independent of collateral and does not include a nonrecourse note. Unless otherwise expressly provided in the Articles of Incorporation, shares having a par value may be issued for less than the par value.

3. **Lost Certificates.** The Board of Directors may direct a new certificate to be issued in place of a certificate alleged to have been destroyed or lost if the owner makes an affidavit or affirmation of that fact and produces such evidence of loss or destruction as the Board of Directors may require. The Board, in its discretion, may as a condition precedent to the issuance of a new certificate require the owner to give the Corporation a bond in such form and amount and with such surety as it may determine as indemnity against any claim that may be made against the Corporation relating to the certificate allegedly destroyed or lost.

4. **Transfer of Shares.** Shares of the Corporation shall only be transferred on the stock transfer books of the Corporation by the holder of record thereof upon the surrender to the Corporation of the share certificates duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer and such documentary stamps as may be required by law. In that event, the surrendered certificates shall be cancelled, new certificates issued to the persons entitled to them, and the transaction recorded on the books of the Corporation.

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5. **Registered Shareholders.** The Corporation shall be entitled to treat the registered holder of any shares of the Corporation as the owner thereof for all purposes, and the Corporation shall not be bound to recognize any equitable or other claim to, or interest in, such shares or rights deriving from such shares on the part of any person other than the registered holder, including without limitation any purchaser, assignee or transferee of such shares or rights deriving from such shares, unless and until such other person becomes the registered holder of such shares, whether or not the Corporation shall have either actual or constructive notice of the claimed interest of such other person.

6. **Stock Ledger.** An appropriate stock journal and ledger shall be kept by the secretary or such registrars or transfer agents as the directors by resolution may appoint in which all transactions in the shares of stock of the Corporation shall be recorded.

7. **Notice of Restriction on Transfer.** Notice of any restriction on the transfer of the stock of the Corporation shall be placed on each certificate of stock issued.

ARTICLE X

Amendments

Subject to repeal or change by action of the shareholders, the Board of Directors may amend, supplement or repeal these Bylaws or adopt new Bylaws, and all such changes shall affect and be binding upon the holders of all shares heretofore as well as hereafter authorized, subscribed for or offered.

ARTICLE XI

Miscellaneous

1. **Gender.** Whenever required by the context, the singular shall include the plural, the plural the singular, and one gender shall include all genders.

2. **Invalid Provision.** The invalidity or unenforceability of any particular provision of these Bylaws shall not affect the other provisions herein, and these Bylaws shall be construed in all respects as if such invalid or unenforceable provision was omitted.

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GAIAM, INC.

1999 LONG-TERM INCENTIVE PLAN
AMENDED AND RESTATED AS OF JANUARY 2, 2006

Section 1. Purpose. The purpose of this Plan is to advance the interests of Gaiam and its shareholders by providing incentives to certain Eligible Persons (as defined below) who contribute significantly to the strategic and long-term performance objectives and growth of the Company.

Section 2. Definitions. The definitions applicable to this Plan are provided in Appendix A.

Section 3. Administration. The Committee shall administer this Plan and shall have all the powers vested in it by the terms of this Plan, such powers to include exclusive authority to select the Eligible Persons to be granted Awards under this Plan, to determine the type, size and terms of the Award to be made to each Eligible Person selected, to modify the terms of any Award that has been granted, to determine the time when Awards will be granted, to establish performance objectives, to make any adjustments necessary or desirable as a result of the granting of Awards to Eligible Persons located outside the United States and to prescribe the form of the agreements evidencing Awards made under this Plan. The Committee is authorized to interpret this Plan and the Awards granted under this Plan, to establish, amend and rescind any rules and regulations relating to this Plan, and to make any other determinations that it deems necessary or desirable for the administration of this Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Award in the manner and to the extent the Committee deems necessary or desirable to carry it into effect. Any decision of the Committee in the interpretation and administration of this Plan, as described this Plan, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. The Committee may act only by a majority of its members in office, *except* that the members thereof may authorize any one or more of their members or any officer of the Company to execute and deliver documents or to take any other ministerial action on behalf of the Committee with respect to Awards made or to be made to Participants. Notwithstanding the foregoing or any other provision of this Plan, the Committee shall not have the authority to accelerate the time or schedule of any payment in a manner which is not permitted under Code Section 409A, or to grant or amend any Award in any manner which would result in an inclusion of any amount in gross income under Code Section 409A(a)(1).

No member of the Committee and no officer of the Company shall be liable for anything done or omitted to be done by him, by any other member of the Committee or by any officer of the Company in connection with the performance of duties under this Plan, *except* for his own willful misconduct or as expressly provided by statute. In addition to all other rights of indemnification and reimbursement to which a member of the Committee and an officer of the Company may be entitled, the Company shall indemnify and hold harmless each such member or officer who was or is a party or is threatened to be made a party to any threatened, pending or completed proceeding or suit in connection with the performance of duties under this Plan against expenses (including reasonable attorneys' fees), judgments, fines, liabilities, losses and amounts paid in settlement actually and reasonably incurred by him in connection with such proceeding or suit, *except* for his own willful misconduct or as expressly provided otherwise by statute. Expenses (including reasonable attorneys' fees) incurred by a such a member or officer in defending any such proceeding or suit shall be paid by the Company in advance of the final disposition of such proceeding or suit upon receipt of a written affirmation by such member or officer of his good faith belief that he has met the standard of conduct necessary for indemnification and a written undertaking by or on behalf of such member or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company as authorized in this Section.

Section 4. Participation. Consistent with the purposes of this Plan, the Committee shall have exclusive power to select the Eligible Persons who may participate in this Plan and be granted Awards under this Plan. Eligible Persons may be selected individually or by groups or categories, as determined by the Committee in its discretion.

Section 5. Awards under this Plan.

(a) *Types of Awards.* Awards under this Plan may include, but need not be limited to, one or more of the following types, either alone or in any combination thereof: (i) Stock Options, (ii) Stock Appreciation Rights, (iii) Restricted Stock, (iv) Performance Grants and (v) any other type of Award deemed by the Committee in its discretion to be consistent with the purposes of this Plan (including, but not limited to, Awards of or options or similar rights granted with respect to unbundled stock units or components thereof, and Awards to be made to Participants who are foreign nationals or are employed or performing services outside the United States).

(b) *Maximum Number of Shares that May be Issued.* There may be issued under this Plan (as Restricted Stock, in payment of Performance Grants, pursuant to the exercise of Stock Options or Stock Appreciation Rights or in payment of or pursuant to the exercise of such other Awards as the Committee, in its discretion, may determine) an aggregate of not more than 2,100,000 Common Shares, subject to adjustment as provided in Section 15. No Eligible Person may receive Awards under this Plan for more than 400,000 Common Shares in any one fiscal year of Gaiam, subject to adjustment as provided in Section 15. Common Shares issued pursuant to this Plan may be either authorized but unissued shares, treasury shares, reacquired shares or any combination thereof. If any Common Shares issued as Restricted Stock or otherwise subject to repurchase or forfeiture rights are reacquired by the Company pursuant to such rights or, if any Award is canceled, terminates or expires unexercised, any Common Shares that would otherwise have been issuable pursuant thereto will be available for issuance under new Awards.

(c) *Rights with Respect to Common Shares and Other Securities.* Except as provided in subsection 8(c) with respect to Awards of Restricted Stock and unless otherwise determined by the Committee in its discretion, a Participant to whom an

Award is made (and any person succeeding to such a Participant's rights pursuant to this Plan) shall have no rights as a shareholder with respect to any Common Shares or as a holder with respect to other securities, if any, issuable pursuant to any such Award until the date of the issuance of a stock certificate to him for such Common Shares or other instrument of ownership, if any. Except as provided in Section 15, no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities, other property or other forms of consideration, or any combination thereof) for which the record date is prior to the date such stock certificate or other instrument of ownership, if any, is required to be issued based upon the date any Award was exercised. In all events, a Participant with whom an Award agreement is made to issue Common Shares in the future, shall have no rights as a shareholder with respect to Common Shares related to such agreement until issuance to him of a stock certificate representing such shares.

Section 6. Stock Options. The Committee may sell Purchased Options or grant other Stock Options either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter; *provided* that an Incentive Stock Option may be granted only to Eligible Persons who are employees of the Company and who have Associated Awards only to the extent that such Associated Awards do not disqualify the Incentive Stock Option's status as such under the Code. Each

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Stock Option granted or sold under this Plan shall be evidenced by an agreement in such form as the Committee shall prescribe from time to time in accordance with this Plan and shall comply with the applicable terms and conditions of this Section and this Plan, and with such other terms and conditions, including, but not limited to, restrictions upon the Stock Option or the Common Shares issuable upon exercise thereof, as the Committee, in its discretion, shall establish.

(a) The exercise price of a Stock Option may be equal to or greater than the Fair Market Value of the Common Shares subject to such Stock Option at the time the Stock Option is granted, as determined by the Committee; *provided, however*, that in the case of an Incentive Stock Option granted to an employee of the Company, the exercise price shall not be less than the Fair Market Value of the Common Shares subject to such Stock Option at the time the Stock Option is granted, or if granted to a Ten Percent Employee, such exercise price shall not be less than 110% of such Fair Market Value at the time the Stock Option is granted. In no event, however, will the exercise price per share of a Stock Option be less than the par value per share of a Common Share.

(b) The Committee shall determine the number of Common Shares to be subject to each Stock Option. In the case of a Stock Option awarded in conjunction with an Associated Award, the number of Common Shares subject to an outstanding Stock Option may be reduced on an appropriate basis to the extent that the Associated Award has been exercised, paid to or otherwise received by the Participant, as determined by the Committee.

(c) Any Stock Option may be exercised during its term only at such time or times and in such installments as the Committee may establish.

(d) A Stock Option shall not be exercisable:

(i) in the case of any Incentive Stock Option granted to a Ten Percent Employee, after the expiration of five years from the date it is granted, and, in the case of any other Stock Option, after the expiration of ten years from the date it is granted; and

(ii) unless payment in full is made for the shares being acquired thereunder at the time of exercise as provided in subsection 6(i).

(e) The Committee shall determine in its discretion and specify in each agreement evidencing a Stock Option the effect, if any, the termination of the Participant's employment with or performance of services for the Company shall have on the exercisability of the Stock Option; *provided, however*, that an Incentive Stock Option shall not be exercisable at a time that is beyond the time an Incentive Stock Option may be exercised in order to qualify as such under the Code.

(f) In the case of an Incentive Stock Option, the amount of the aggregate Fair Market Value of Common Shares (determined at the time of grant of the Stock Option) with respect to which incentive stock options are exercisable for the first time by an employee of the Company during any calendar year (under all such plans of his employer corporation and its parent and subsidiary corporations) shall not exceed \$100,000 or such other amount as is specified in the Code.

(g) It is the intent of Gaiaam that Nonqualified Stock Options granted under this Plan not be classified as Incentive Stock Options, that the Incentive Stock Options granted under this Plan be consistent with and contain or be deemed to contain all provisions required under

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Section 422 and the other appropriate provisions of the Code and any implementing regulations (and any successor provisions thereof), and that any ambiguities in construction shall be interpreted in order to effectuate such intent.

(h) A Purchased Option may contain such additional terms not inconsistent with this Plan, including but not limited to the circumstances under which the purchase price of such Purchased Option may be returned to the holder of the Purchased

Option, as the Committee may determine in its sole discretion.

(i) For purposes of payments made to exercise Stock Options, such payment shall be made in such form (including, but not limited to, cash, Common Shares, the surrender of another outstanding Award under this Plan or any combination thereof) as the Committee may determine in its discretion; *provided, however*, that, unless the Committee determines otherwise, for purposes of making such payment in Common Shares, such shares shall be valued at their Fair Market Value on the day of exercise and shall have been held by the Participant for a period of at least six (6) months.

Section 7. Stock Appreciation Rights. The Committee may grant Stock Appreciation Rights either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter. Each Award of Stock Appreciation Rights granted under this Plan shall be evidenced by an agreement in such form as the Committee shall prescribe from time to time in accordance with this Plan and shall comply with the applicable terms and conditions of this Section and this Plan, and with such other terms and conditions, including, but not limited to, restrictions upon the Award of Stock Appreciation Rights or the Common Shares issuable upon exercise thereof, as the Committee, in its discretion, shall establish.

(a) The Committee shall determine the number of Common Shares to be subject to each Award of Stock Appreciation Rights. In the case of an Award of Stock Appreciation Rights awarded in conjunction with an Associated Award, the number of Common Shares subject to an outstanding Award of Stock Appreciation Rights may be reduced on an appropriate basis to the extent that the Associated Award has been exercised, paid to or otherwise received by the Participant, as determined by the Committee.

(b) The Award of Stock Appreciation Rights shall not be exercisable:

(i) unless the Associated Award, if any, is at the time exercisable;

(ii) if the Associated Award is a Stock Option and the Fair Market Value per share of the Common Shares on the exercise date does not exceed the exercise price per share of such Stock Option; and

(iii) if the Associated Award is an Incentive Stock Option and the exercise of the Award of Stock Appreciation Rights would disqualify the Incentive Stock Option as such under the Code.

(c) The Committee shall determine in its discretion and specify in each agreement evidencing an Award of Stock Appreciation Rights the effect, if any, the termination of the Participant's employment with or performance of services for the Company shall have on the exercisability of the Award of Stock Appreciation Rights.

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(d) An Award of Stock Appreciation Rights shall entitle the holder to exercise such Award or to surrender unexercised an Associated Award (or any portion of such Associated Award) to Gaiaam and to receive from Gaiaam in exchange thereof, without payment to Gaiaam, that number of Common Shares having an aggregate value equal to (or, in the discretion of the Committee, less than) the excess of the Fair Market Value of one share, at the time of such exercise, over the exercise price, times the number of shares subject to the Award or the Associated Award, or portion thereof, that is so exercised or surrendered, as the case may be. The Committee shall be entitled in its discretion to elect to settle the obligation arising out of the exercise of a Stock Appreciation Right by the payment of cash or Other Gaiaam Securities or property, or other forms of payment or any combination thereof, as determined by the Committee, equal to the aggregate value of the Common Shares it would otherwise be obligated to deliver. Any such election by the Committee shall be made as soon as practicable after the receipt by the Committee of written notice of the exercise of the Stock Appreciation Right.

(e) A Stock Appreciation Right may provide that it shall be deemed to have been exercised at the close of business on the business day preceding the expiration date of the Stock Appreciation Right or of the related Stock Option (or other Award), or such other date as specified by the Committee, if at such time such Stock Appreciation Right has a positive value. Such deemed exercise shall be settled or paid in the same manner as a regular exercise thereof as provided in subsection 7(d) of this Agreement.

Section 8. Restricted Stock. The Committee may grant Awards of Restricted Stock either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter. Each Award of Restricted Stock under this Plan shall be evidenced by an agreement in such form as the Committee shall prescribe from time to time in accordance with this Plan and shall comply with the applicable terms and conditions of this Section and this Plan, and with such other terms and conditions as the Committee, in its discretion, shall establish.

(a) The Committee shall determine the number of Common Shares to be issued to a Participant pursuant to the Award of Restricted Stock, and the extent, if any, to which they shall be issued in exchange for cash, other consideration, or both.

(b) Until the expiration of such period as the Committee shall determine from the date on which the Award is granted and subject to such other terms and conditions as the Committee in its discretion shall establish (the "*Restricted Period*"), a Participant to whom an Award of Restricted Stock is made shall be issued, but shall not be entitled to the delivery of, a stock certificate representing the Common Shares subject to such Award.

(c) Unless otherwise determined by the Committee in its discretion, a Participant to whom an Award of Restricted Stock has been made (and any person succeeding to such a participant's rights pursuant to this Plan) shall have, after issuance of a certificate for the number of Common Shares awarded and prior to the expiration of the Restricted Period, ownership of such

Common Shares, including the right to vote such Common Shares and to receive dividends or other distributions made or paid with respect to such Common Shares (*provided* that such Common Shares, and any new, additional or different shares, or Other Gaiam Securities or property, or other forms of consideration that the Participant may be entitled to receive with respect to such Common Shares as a result of a stock split, stock dividend or any other change in the corporation or capital structure of Gaiam, shall be subject to the restrictions set forth in this Plan as determined by the Committee in its discretion), subject, however, to the options, restrictions and limitations imposed thereon pursuant to this Plan.

(d) The Committee shall determine in its discretion and specify in each agreement evidencing an Award of Restricted Stock the effect, if any, the termination of the Participant's employment with or performance of services for the Company during the Restricted Period shall have on such Award of Restricted Stock.

Section 9. Performance Grants. The Committee may grant Awards of Performance Grants either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter. The Award of a Performance Grant to a Participant will entitle him to receive a specified amount determined by the Committee (the "*Actual Value*"), if the terms and conditions specified in this Plan and in the Award are satisfied. Each Award of a Performance Grant shall be subject to the applicable terms and conditions of this Section and this Plan, and to such other terms and conditions, including but not limited to, restrictions upon any cash, Common Shares, Other Gaiam Securities or property, or other forms of payment, or any combination thereof, issued with respect to the Performance Grant, as the Committee, in its discretion, shall establish, and shall be embodied in an agreement in such form and substance as is determined by the Committee.

(a) The Committee shall determine the value or range of values of a Performance Grant to be awarded to each Participant selected for an Award and whether or not such a Performance Grant is granted in conjunction with an Associated Award. As determined by the Committee, the maximum value of each Performance Grant (the "*Maximum Value*") shall be: (i) an amount fixed by the Committee at the time the Award is made or amended thereafter, (ii) an amount that varies from time to time based in whole or in part on the then current value of the Common Shares, Other Gaiam Securities or property, or other securities or property, or any combination thereof or (iii) an amount that is determinable from criteria specified by the Committee. Performance Grants may be issued in different classes or series having different names, terms and conditions. In the case of a Performance Grant awarded in conjunction with an Associated Award, the Performance Grant may be reduced on an appropriate basis to the extent that the Associated Award has been exercised, paid to or otherwise received by the Participant, as determined by the Committee.

(b) The award period ("*Award Period*") related to any Performance Grant shall be a period determined by the Committee. At the time each Award is made, the Committee shall establish performance objectives to be attained within the Award Period as the means of determining the Actual Value of such a Performance Grant. The performance objectives shall be based on such measure or measures of performance, which may include, but need not be limited to, the performance of the Participant, the Company or one or more of its divisions or units, or any combination of the foregoing, as the Committee shall determine, and may be applied on an absolute basis or be relative to industry or other indices or any combination thereof. The Actual Value of a Performance Grant shall be equal to its Maximum Value only if the performance objectives are attained in full, but the Committee shall specify the manner in which the Actual Value of Performance Grants shall be determined if the performance objectives are met in part. Such performance measures, the Actual Value or the Maximum Value, or any combination thereof, may be adjusted in any manner by the Committee in its discretion at any time and from time to time during or as soon as practicable after the Award Period, if it determines that such performance measures, the Actual Value or the Maximum Value, or any combination thereof, are not appropriate under the circumstances.

(c) The Committee shall determine in its discretion and specify in each agreement evidencing a Performance Grant the effect, if any, the termination of the Participant's employment with or performance of services for the Company during the Award Period shall have on such Performance Grant.

(d) The Committee shall determine whether the conditions of a Performance Grant have been met and, if so, shall ascertain the Actual Value of the Performance Grant. If the Performance Grant has no Actual Value, the Award and such Performance Grant shall be deemed to have been canceled and the Associated Award, if any, may be canceled or permitted to continue in effect in accordance with its terms. If the Performance Grant has any Actual Value and:

(i) was not awarded in conjunction with an Associated Award, the Committee shall cause an amount equal to the Actual Value of the Performance Grant earned by the Participant to be paid to him or his permitted assignee or Beneficiary; or

(ii) was awarded in conjunction with an Associated Award, the Committee shall determine, in accordance with criteria specified by the Committee (A) to cancel the Performance Grant, in which event no amount with respect thereto shall be paid to the Participant or his permitted assignee or Beneficiary, and the Associated Award may be permitted to continue in effect in accordance with its terms, (B) to pay the Actual Value of the Performance Grant to the Participant or his permitted assignee or Beneficiary as provided below, in which event the Associated Award may be canceled or (C) to pay to the Participant or his Beneficiary, the Actual Value of only a portion of the Performance Grants, in which event all or a portion of the Associated Award may be permitted to continue in effect in accordance with its

terms or be canceled, as determined by the Committee.

Such determination by the Committee shall be made as promptly as practicable following the end of the Award Period or upon the earlier termination of employment or performance of services, or at such other time or times as the Committee shall determine, and shall be made pursuant to criteria specified by the Committee.

(e) Payment of any amount with respect to the Performance Grants that the Committee determines to pay as provided above shall be made by Gaiam as promptly as practicable after the end of the Award Period or at such other time or times as the Committee shall determine, and may be made in cash, Common Shares, Other Gaiam Securities or property, or other forms of payment, or any combination thereof or in such other manner, as determined by the Committee in its discretion. Notwithstanding anything in this Section to the contrary, the Committee may, in its discretion, determine and pay out the Actual Value of the Performance Grants at any time during the Award Period.

Section 10. *Deferral of Compensation.* The Committee shall determine whether or not an Award shall be made in conjunction with the deferral of the Participant's salary, bonus or other compensation, or any combination thereof, and whether or not such deferred amounts may be:

(a) forfeited to the Company or to other Participants or any combination thereof, under certain circumstances (which may include, but need not be limited to, certain types of termination of employment or performance of services for the Company);

(b) subject to increase or decrease in value based upon the attainment of or failure to attain, respectively, certain performance measures; and/or

(c) credited with income equivalents (which may include, but need not be limited to, interest, dividends or other rates of return) until the date or dates of payment of the Award, if any.

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Section 11. *Deferred Payment of Awards.* The Committee may specify that the payment of all or any portion of cash, Common Shares, Other Gaiam Securities or property, or any other form of payment, or any combination thereof, under an Award shall be deferred until a later date. Deferrals shall be for such periods or until the occurrence of such events, and upon such terms, as the Committee shall determine in its discretion, provided however, that any such deferral shall comply with the requirements of Code Section 409A. Deferred payments of Awards may be made by undertaking to make payment in the future based upon the performance of certain investment equivalents (which may include, but need not be limited to, government securities, Common Shares, other securities, property or consideration, or any combination thereof), together with such additional amounts of income equivalents (which may be compounded and may include, but need not be limited to, interest, dividends or other rates of return or any combination thereof) as may accrue thereon until the date or dates of payment, such investment equivalents and such additional amounts of income equivalents to be determined by the Committee in its discretion.

Section 12. *Transferability of Awards.* A Participant's rights and interest under this Plan or any Award may not be assigned or transferred, hypothecated or encumbered in whole or in part either directly or by operation of law or otherwise, including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner; *provided, however*, the Committee may permit such transfer to a Permitted Transferee; and *provided, further*, that, unless otherwise permitted by the Code, any Incentive Stock Option granted pursuant to this Plan shall not be transferable other than by will, by the laws of descent and distribution, and shall be exercisable during the Participant's lifetime only by Participant or by such Permitted Transferee.

Section 13. *Amendment or Substitution of Awards under this Plan.* The terms of any outstanding Award under this Plan may be amended or modified from time to time by the Committee in its discretion in any manner that it deems appropriate (including, but not limited to, acceleration of the date of exercise of any Award and/or payments thereunder) if the Committee could grant such amended or modified Award under the terms of this Plan at the time of such amendment or modification; *provided* that no such amendment or modification shall adversely affect in a material manner any right of a Participant under the Award without his written consent, unless the Committee determines in its discretion that there have occurred or are about to occur significant changes in the Participant's position, duties or responsibilities, or significant changes in economic, legislative, regulatory, tax, accounting or cost/benefit conditions that are determined by the Committee in its discretion to have or to be expected to have a substantial effect on the performance of the Company, or any affiliate, division or department thereof, on this Plan or on any Award under this Plan and provided further that the Committee shall not have the authority to accelerate the time or schedule of any payment in a manner which is not permitted under Code Section 409A, or to grant or amend any Award in any manner which would result in an inclusion of any amount in gross income under Code Section 409A(a)(1). The Committee may, in its discretion, permit holders of Awards under this Plan to surrender outstanding Awards in order to exercise or realize the rights under other Awards, or in exchange for the grant of new Awards, or require holders of Awards to surrender outstanding Awards as a condition precedent to the grant of new Awards under this Plan.

Section 14. *Termination of a Participant.* For all purposes under this Plan, the Committee shall determine whether a Participant has terminated employment with, or the performance of services for, the Company; *provided, however*, an absence or leave approved by the Company, to the extent permitted by applicable provisions of the Code, shall not be considered an interruption of employment or performance of services for any purpose under this Plan.

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Section 15. *Dilution and Other Adjustments.* If any change in the outstanding Common Shares of the Company occurs by reason of any stock split of or stock dividend on the Common Shares, then, except as otherwise determined by the Committee, the terms of any outstanding Awards shall be equitably adjusted. If any change in the outstanding Common Shares occurs by reason of any split-up, split-off, spin-off, recapitalization, merger, consolidation, rights offering, reorganization, combination or exchange of shares, sale by the Company of all of its assets, distribution to shareholders (other than a stock dividend or a normal cash dividend on the Common Shares), or other extraordinary or unusual event (other than a stock split of the Common Stock as provided above), then the Committee may determine, in its discretion, to terminate all outstanding Awards immediately prior to the consummation of any such event, or make an equitable adjustment in the terms of any outstanding Award and/or the number of Common Shares available for Awards. Any such termination or adjustment made by the Committee and shall be final, conclusive and binding for all purposes of the Plan. Unless otherwise provided by the Committee, all outstanding Awards shall terminate immediately prior to the consummation of any dissolution or liquidation of the Company.

Section 16. *Designation of Beneficiary by Participant.* A Participant may name a beneficiary to receive any payment to which he may be entitled with respect to any Award under this Plan in the event of his death, on a written form to be provided by and filed with the Committee, and in a manner determined by the Committee in its discretion (a “**Beneficiary**”). The Committee reserves the right to review and approve Beneficiary designations. A Participant may change his Beneficiary from time to time in the same manner, unless such Participant has made an irrevocable designation. Any designation of a Beneficiary under this Plan (to the extent it is valid and enforceable under applicable law) shall be controlling over any other disposition, testamentary or otherwise, as determined by the Committee in its discretion. If no designated Beneficiary survives the Participant and is living on the date on which any amount becomes payable to such a Participant’s Beneficiary, such payment will be made to the legal representatives of the Participant’s estate, and the term “**Beneficiary**” as used in this Plan shall be deemed to include such person or persons. If there are any questions as to the legal right of any Beneficiary to receive a distribution under this Plan, the Committee in its discretion may determine that the amount in question be paid to the legal representatives of the estate of the Participant, in which event the Company, the Board, the Committee, the Designated Administrator (if any), and the members thereof, will have no further liability to anyone with respect to such amount.

Section 17. *Financial Assistance.* If the Committee determines that such action is advisable, the Company may assist any Participant in obtaining financing from the Company (or under any program of the Company approved pursuant to applicable law), or from a bank or other third party, on such terms as are determined by the Committee, and in such amount as is required to accomplish the purposes of this Plan, including, but not limited to, to permit the exercise of an Award, the participation therein, and/or the payment of any taxes with respect thereto. Such assistance may take any form that the Committee deems appropriate, including, but not limited to, a direct loan from the Company, a guarantee of the obligation by the Company or the maintenance by the Company of deposits with such bank or third party.

Section 18. *Miscellaneous Provisions.*

- (a) Any proceeds from Awards shall constitute general funds of Gaiam.
- (b) No fractional shares may be delivered under an Award, but in lieu thereof a cash or other adjustment may be made as determined by the Committee in its discretion.
- (c) No Eligible Person or other person shall have any claim or right to be granted an Award under this Plan. Determinations made by the Committee under this Plan need not be uniform and may be made selectively among Eligible Persons under this Plan, whether or not

such Eligible Persons are similarly situated. Neither this Plan nor any action taken hereunder shall be construed as giving any Eligible Person any right to continue to be employed by or perform services for the Company, and the right to terminate the employment of or performance of services by Eligible Persons at any time and for any reason is specifically reserved.

(d) No Participant or other person shall have any right with respect to this Plan, the Common Shares reserved for issuance under this Plan or in any Award, contingent or otherwise, until written evidence of the Award shall have been delivered to the recipient and all the terms, conditions and provisions of this Plan and the Award applicable to such recipient (and each person claiming under or through him) have been met.

(e) No Common Shares, Other Gaiam Securities or property, other securities or property or other forms of payment shall be issued hereunder with respect to any Award unless counsel for Gaiam shall be satisfied that such issuance will be in compliance with applicable law and any applicable rules of any stock exchange or other market quotation system on which Common Shares are listed.

(f) It is the intent of Gaiam that this Plan comply in all respects with Rule 16b-3 and Section 162(m) with respect to Awards granted to executive officers of Gaiam, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that if any provision of this Plan is found not to be in compliance with Rule 16b-3 or Section 162(m), such provision shall be deemed null and void with respect to Awards granted to executive officers of Gaiam to the extent required to permit such Awards to comply with Rule 16b-3 and Section 162(m). It is also the intent of Gaiam that this Plan comply in all respects with the provisions of the Code providing favorable treatment to Incentive Stock Options, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that if any provision of this Plan is found not to be in compliance with the Incentive Stock Option provisions of the Code, such provision shall be deemed null and void with respect to Incentive Stock Options granted to employees of the Company to the extent required to permit such Incentive Stock Options to receive favorable treatment under the Code.

It is the intent of Gaiam that this Plan comply in all respects with any applicable provisions of Code Section 409A with respect to Awards granted under this plan and any amendment or revision of such Awards, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that if any provision of this Plan is found not to be in compliance with any applicable provisions of Code Section 409A such Plan provision shall be deemed null and void to the extent required to permit such Awards to comply with any applicable provisions of Code Section 409A. Specifically, the Committee shall not have the authority to accelerate the time or schedule of any payment in a manner which is not permitted under Code section 409A or the regulations issued thereunder, or to grant or amend any Award in any manner which would result in an inclusion of any amount in gross income under Code Section 409A(a)(1).

(g) The Company shall have the right to deduct from any payment made under this Plan any federal, state, local or foreign income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of Gaiam to issue Common Shares, Other Gaiam Securities or property, other securities or property, or other forms of payment, or any combination thereof, upon exercise, settlement or payment of any Award under this Plan, that the Participant (or any Beneficiary or person entitled to act) pay to Gaiam, upon its demand, such amount as may be required by the Company for the purpose of satisfying any liability to withhold federal, state, local or foreign income or other taxes. If the amount requested

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is not paid, Gaiam may refuse to issue Common Shares, Other Gaiam Securities or property, other securities or property, or other forms of payment, or any combination thereof. Notwithstanding anything in this Plan to the contrary, the Committee may, in its discretion, permit an Eligible Person (or any Beneficiary or person entitled to act) to elect to pay a portion or all of the amount requested by the Company for such taxes with respect to such Award, at such time and in such manner as the Committee shall deem to be appropriate (including, but not limited to, by authorizing Gaiam to withhold, or agreeing to surrender to Gaiam on or about the date such tax liability is determinable, Common Shares, Other Gaiam Securities or property, other securities or property, or other forms of payment, or any combination thereof, owned by such person or a portion of such forms of payment that would otherwise be distributed, or have been distributed, as the case may be, pursuant to such Award to such person, having a Fair Market Value equal to the amount of such taxes).

(h) The expenses of this Plan shall be borne by the Company; *provided, however*, the Company may recover from a Participant or his Beneficiary, heirs or assigns any and all damages, fees, expenses and costs incurred by the Company arising out of any actions taken by a Participant in breach of this Plan or any agreement evidencing such Participant's Award.

(i) This Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under this Plan, and rights to the payment of Awards shall be no greater than the rights of the Company's general creditors.

(j) By accepting any Award or other benefit under this Plan, each Participant and each person claiming under or through him shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under this Plan by the Company, the Board, the Committee or the Designated Administrator (if applicable).

(k) The appropriate officers of the Company shall cause to be filed any reports, returns or other information regarding Awards hereunder of any Common Shares issued pursuant hereto as may be required by applicable law and any applicable rules of any stock exchange or other market quotation system on which Common Shares are listed.

(l) The validity, construction, interpretation, administration and effect of this Plan, and of its rules and regulations, and rights relating to this Plan and to Awards granted under this Plan, shall be governed by the substantive laws, but not the choice of law rules, of the State of Colorado.

(m) Records of the Company shall be conclusive for all purposes under this Plan or any Award, unless determined by the Committee to be incorrect.

(n) If any provision of this Plan or any Award is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Plan or any Award, but such provision shall be fully severable, and this Plan or Award, as applicable, shall be construed and enforced as if the illegal or invalid provision had never been included in this Plan or Award, as applicable.

(o) The terms of this Plan shall govern all Awards under this Plan and in no event shall the Committee have the power to grant any Award under this Plan that is contrary to any of the provisions of this Plan.

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(p) For purposes of interpretation of this Plan, the masculine pronoun includes the feminine and the singular includes the plural wherever appropriate.

Section 19. Plan Amendment or Suspension. This Plan may be amended or suspended in whole or in part at any time from time to time by the Board. No amendment of this Plan shall adversely affect in a material manner any right of any Participant with respect to any Award previously granted without such Participant's written consent, except as permitted under Section 13.

Section 20. Plan Termination. This Plan shall terminate upon the earlier of the following dates or events to occur:

- (a) upon the adoption of a resolution of the Board terminating this Plan; or
- (b) the tenth anniversary of the Effective Date; *provided, however*, that the Board may, prior to such date, extend the term of this Plan for an additional period of up to five years for the grant of Awards other than Incentive Stock Options. No termination of this Plan shall materially alter or impair any of the rights or obligations of any person, without his consent, under any Award previously granted under this Plan, *except* that subsequent to termination of this Plan, the Committee may make amendments or modifications permitted under Section 13.

Section 21. Effective Date. This Plan shall be effective, and Awards may be granted under this Plan, on or after the Effective Date.

APPENDIX A

The following terms shall have the meaning indicated:

- (a) “*Actual Value*” has the meaning set forth in Section 9.
- (b) “*Associated Award*” shall mean an Award granted concurrently or subsequently in conjunction with another Award.
- (c) “*Award*” shall mean an award of rights to an Eligible Person under this Plan.
- (d) “*Award Period*” has the meaning set forth in subsection 9(b).
- (e) “*Beneficiary*” has the meaning set forth in Section 16.
- (f) “*Board*” shall mean the board of directors of Gaiam.
- (g) “*Code*” shall mean the Internal Revenue Code of 1986, as it now exists or may be amended from time to time, and the rules and regulations promulgated thereunder, as they may exist or may be amended from time to time.
- (h) “*Committee*” shall mean the person or persons responsible for administering the Plan. The Board shall constitute the Committee until the Board appoints a Board Committee, after which time the Board Committee shall constitute the Committee, provided, however, that at any time the Board may designate itself as the Committee or designate itself to administer certain of the Committee’s authority under the Plan, including administering certain Awards under the Plan. The Board or the Board Committee may designate a Designated Administrator to constitute the Committee or to administer certain of the Committee’s authority under the Plan, including administering certain Awards under the Plan, subject to the right of the Board or the Board Committee, as applicable, to revoke its designation at any time and to make such designation on such terms and conditions as it may determine in its discretion. For purposes of this definition, the “*Board Committee*” shall mean a committee of the Board designated by the Board to administer this Plan. Except as otherwise determined by the Board, the Board Committee (i) shall be comprised of not fewer than two directors, (ii) shall meet any applicable requirements under Rule 16b-3, including any requirement that the Board Committee consist of “nonemployee directors” (as defined in Rule 16b-3), (iii) shall meet any applicable requirements under Section 162(m), including any requirement that the Board Committee consist of “outside directors” (as defined in Treasury Regulation §1.162-27(e)(3)(i) or any successor regulation), and (iv) shall meet any applicable requirements of any stock exchange or other market quotation system on which Common Shares are listed. For purposes of this definition, the “*Designated Administrator*” shall mean a person or person designated by the Board or a Board Committee to act as a Designated Administrator pursuant to this Plan. Except as otherwise determined by the Board, a Designated Administrator shall only be appointed if Rule 16b-3 permits such appointment and the exercise of any authority without adversely affecting the ability of Awards to officers of Gaiam to comply with the conditions for Rule 16b-3 or Section 162(m).
- (i) “*Company*” shall mean Gaiam and any parent, subsidiary or affiliate of Gaiam.

- (j) “*Common Shares*” shall mean shares of Class A common stock, par value \$0.0001 per share, of Gaiam and stock of any other class into which such shares may thereafter be changed.
- (k) “*Effective Date*” shall June 1, 1999.
- (l) “*Eligible Person(s)*” shall mean those persons who are full or part-time employees of the Company or other individuals who perform services for the Company, including, without limitation, directors who are not employees of the Company and consultants and independent contractors who perform services for the Company.

(m) “*Exchange Act*” shall mean the Securities Exchange Act of 1934, as it now exists or may be amended from time to time, and the rules promulgated thereunder, as they may exist or may be amended from time to time.

(n) “*Fair Market Value*” shall mean such value rounded up to the nearest cent as determined by the Committee in accordance with applicable law.

(o) “*Incentive Stock Option*” shall mean a Stock Option that is an incentive stock option as defined in Section 422 of the Code. Incentive Stock Options are subject, in part, to the terms, conditions and restrictions described in Section 6.

(p) “*Maximum Value*” has the meaning set forth in subsection 9(a).

(q) “*Gaiam*” shall mean Gaiam, Inc., a Colorado corporation.

(r) “*Nonqualified Stock Option*” shall mean a Stock Option that is not an incentive stock option as defined in Section 422 of the Code. Nonqualified Stock Options are subject, in part, to the terms, conditions and restrictions described in Section 6.

(s) “*Other Gaiam Securities*” shall mean Gaiam securities (which may include, but need not be limited to, unbundled stock units or components thereof, debentures, preferred stock, warrants, securities convertible into Common Shares or other property) other than Common Shares.

(t) “*Participant*” shall mean an Eligible Person to whom an Award has been granted under this Plan.

(u) “*Performance Grant*” shall mean an Award subject, in part, to the terms, conditions and restrictions described in Section 9, pursuant to which the recipient may become entitled to receive cash, Common Shares, Other Gaiam Securities or property, or other forms of payment, or any combination thereof, as determined by the Committee.

(v) “*Permitted Transferee*” means (i) any person defined as an employee in the Instructions to Registration Statement Form S-8 promulgated by the Securities and Exchange Commission, as such Form may be amended from time to time, which persons include, as of the date of adoption of the Plan, (a) executors, administrators or beneficiaries of the estates of deceased Participants, guardians or members of a committee for incompetent former Participants, or similar persons duly authorized by law to administer the estate or assets of former Participants, and (b) Participants’ family members who acquire Awards from the Participant other than for value, through a gift or a domestic relations order and (ii) any trust established for the benefit of

any person described in clause (i). For purposes of this definition, “*family member*” includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Participant’s household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests. For purposes of this definition, neither (i) a transfer under a domestic relations order in settlement of marital property rights; nor (ii) a transfer to an entity in which more than fifty percent of the voting interests are owned by family members (or the Participant) in exchange for an interest in that entity is considered a transfer for “*value*”.

(w) “*Plan*” shall mean this Gaiam, Inc. 1999 Long-Term Incentive Plan.

(x) “*Purchased Option*” shall mean a Stock Option that is sold to an Eligible Person at a price determined by the Committee. Purchased Options are subject, in part, to the terms, conditions and restrictions described in Section 6.

(y) “*Restricted Period*” has the meaning set forth in subsection 8(b).

(z) “*Restricted Stock*” shall mean an Award of Common Shares that are issued subject, in part, to the terms, conditions and restrictions described in Section 8.

(aa) “*Rule 16b-3*” shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act and any successor rule.

(bb) “*Section 162(m)*” shall mean §162(m) of the Code, any rules or regulations promulgated thereunder, as they may exist or may be amended from time to time, or any successor to such section.

(cc) “*Section 409A*” shall mean §409A of the Code, any rules or regulations promulgated thereunder, as they may exist or may be amended from time to time, or any successor to such section.

(dd) “*Stock Appreciation Right*” shall mean an Award of a right to receive (without payment to Gaiam) cash, Common Shares, Other Gaiam Securities or property, or other forms of payment, or any combination thereof, as determined by the Committee, based on the increase in the value of the number of Common Shares specified in the Stock Appreciation Right. Stock Appreciation Rights are subject, in part, to the terms, conditions and restrictions described in Section 7.

(ee) “*Stock Option*” shall mean an Award of a right to purchase Common Shares. The term Stock Option shall include Nonqualified Stock Options, Incentive Stock Options and Purchased Options.

(ff) “*Ten Percent Employee*” shall mean an employee of the Company who owns stock representing more than ten percent of the voting power of all classes of stock of Gaiam or any parent or subsidiary of Gaiam.

(gg) “*Treasury Regulation*” shall mean a final, proposed or temporary regulation of the Department of Treasury under the Code and any successor regulation.

SECOND LEASE AMENDMENT

THIS SECOND LEASE AMENDMENT (the "Amendment") is executed this 5th day of October, 2005 and effective as of the 1st day of October, 2005 by and between DUGAN FINANCING LLC, a Delaware limited liability company ("Landlord"), and GAIAM, INC., a Colorado corporation ("Tenant").

WITNESSETH:

WHEREAS, Duke-Weeks Realty Limited Partnership, as predecessor in interest to Landlord, and Tenant entered into a certain lease dated December 16, 1999, as amended April 12, 2000 (collectively, the "Lease"), whereby Tenant leases from Landlord certain premises consisting of approximately 208,120 square feet of space (the "Leased Premises") in a building commonly known as World Park at Union Centre, Building No. 8, located at 9107 Meridian Way, Cincinnati, Ohio 45069; and

WHEREAS, Landlord and Tenant desire to extend the Lease Term; and

WHEREAS, Landlord and Tenant desire to amend certain provisions of the Lease to reflect such extension and other changes to the Lease;

NOW, THEREFORE, in consideration of the foregoing premises, the mutual covenants herein contained and each act performed hereunder by the parties, Landlord and Tenant hereby agree that the Lease is amended as follows:

1. Incorporation of Recitals. The above recitals are hereby incorporated into this Amendment as if fully set forth herein.
2. Extension of Lease Term. The Lease Term is hereby extended through September 30, 2008.
3. Amendment of Section 1.01. Basic Lease Provisions and Definitions. Commencing October 1, 2005, Section 1.01 of the Lease is hereby amended by deleting subsections D, E, F, H and M and substituting the following in lieu thereof:

"D. Minimum Annual Rent:

October 1, 2005 - September 30, 2006	\$ 613,953.96
October 1, 2006 - September 30, 2007	\$ 628,522.44
October 1, 2007 - September 30, 2008	\$ 645,171.96;

E. Monthly Rental Installments:

October 1, 2005 - September 30, 2006	\$ 51,162.83 per month
October 1, 2006 - September 30, 2007	\$ 52,376.87 per month
October 1, 2007 - September 30, 2008	\$ 53,764.33 per month;

F. Landlord's Share of Expenses: \$0.00;

H. Lease Term: extended through September 30, 2008;

M. Address for payments and notices as follows:

Landlord:	Dugan Financing LLC c/o Duke Realty Services Limited Partnership Attn.: Senior Property Manager 4555 Lake Forest Drive, Suite 400 Cincinnati, OH 45242
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With a copy to:	Dugan Financing LLC c/o Duke Realty Services Limited Partnership Attn: Jeff Behm 600 East 96th Street, Suite 100 Indianapolis, IN 46240
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With payments to:	Dugan Financing LLC 75 Remittance Drive, Suite 1128 Chicago, IL 60675-1128
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Tenant:	Gaiam, Inc. Attn.: Mark Lipien 360 Interlochen Boulevard, Suite 300 Broomfield, CO 80021
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With a Copy to: Gaiam, Inc.
9107 Meridian Way
Cincinnati, OH 45069;

4. Amendment of Section 2.02. Construction of Tenant Improvements. Section 2.02 of the Lease is hereby amended by substituting **Exhibit B-2**, attached hereto and incorporated herein by reference, in lieu of **Exhibit B-1** attached to the Lease. Landlord shall ensure that the improvements set forth in **Exhibit B-2** shall be made in accordance with all applicable laws, regulations and building codes. Landlord shall use commercially reasonable speed and diligence to timely complete such improvements.

5. Amendment of Section 3.02. Additional Rent.

(a) Commencing October 1, 2005, the first sentence of Section 3.02 of the Lease is hereby deleted and the following is substituted in lieu thereof:

“In addition to the Minimum Annual Rent Tenant shall pay to Landlord for each calendar year during the Lease Term, as “Additional Rent,” Tenant’s Proportionate Share of all costs and expenses incurred by Landlord during the Lease Term for Real Estate Taxes and Operating Expenses for the Building and common areas (collectively “Common Area Charges”).”

(b) Commencing October 1, 2005, the portion of the second sentence of Section 3.02 of the Lease that reads “management fees not to exceed four percent (4%) of gross rent for the Building” is hereby deleted and the following is substituted in lieu thereof: “management fees not to exceed three percent (3%) of gross rent for the Building”.

6. Amendment of Article 4. Security Deposit. The last two sentences of Article 4 of the Lease are hereby deleted in their entirety and shall be of no further force or effect.

7. Amendment of Section 9.02. Tenant’s Insurance. Section 9.02 of the Lease is hereby amended to require in lieu of the limits of the policy stated in subparagraph (B) thereof the following: Commercial General Liability Insurance, including blanket, contractual liability, broad form property damage, personal injury, completed operations, products liability, and fire damage: Not less than \$3,000,000 Combined Single Limit for both bodily injury and property damage.

8. Amendment of Section 16.13. Option to Extend. Section 16.13 of the Lease is hereby deleted in its entirety and shall be of no further force or effect.

9. Amendment of Section 16.14. Right of First Refusal. Section 16.14 of the Lease is hereby deleted in its entirety and shall be of no further force or effect.

10. Amendment of Article 16. Article 16 of the Lease is hereby amended by adding the following additional sections:

“Section 16.15. Financial Statements. During the Lease Term and any extensions thereof, Tenant shall provide to Landlord on an annual basis, within ninety (90) days following the end of Tenant’s fiscal year, a copy of Tenant’s most recent certified and audited financial statements prepared as of the end of Tenant’s most recent fiscal year. Such financial statements shall be prepared in conformity with generally accepted accounting principles, consistently applied. Notwithstanding the foregoing, if (i) the named tenant, Gaiam, Inc., is Tenant, (ii) Tenant’s financial statements are publicly available, and (iii) such statements comply with the provisions hereinabove, then Landlord shall not request Tenant’s financial statements from Tenant.

Section 16.16. ERISA Matters.

(a) Tenant acknowledges that it has been advised that an affiliate of Landlord is a collective investment fund (the “Fund”) which holds the assets of one or more employee benefit plans or retirement arrangements which are subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”) (each a “Plan”), and with respect to which Morgan Guaranty Trust Company of New York (“MGT”) is the Trustee and that, as a result, Landlord may be prohibited by law from engaging in certain transactions.

(b) Landlord hereby represents and warrants to Tenant that, as of the date hereof, the only Plans whose assets are invested in the Fund which, together with the interests of any other Plans maintained by the same employer or employee organization, represent a collective interest in the Fund in excess of ten percent (10%) of the total interests in the Fund (each, a “10% Plan”) are referenced on **Exhibit E** (collectively, the “Existing 10% Plan”).

(c) Tenant represents and warrants that as of the date hereof, and at all times while it is a Tenant under this Lease, one of the following statements is, and will continue to be, true: (1) Tenant is not a “party in interest” (as defined in Section 3(14) of ERISA) or a “disqualified person” (as defined in Section 4975 of the Code) (each, a “Party in Interest”) with respect to the Existing 10% Plan or, (2) if Tenant is a Party in Interest, that:

(A) neither Tenant nor its “affiliate” (as defined in Section V(c) of PTCE 84-14, “Affiliate”) has, or during the immediately preceding one (1) year has, exercised the authority to either: (i) appoint or terminate MGT as the qualified professional asset manager (as defined in Section V(a) of PTCE 84-14, “QPAM”) of any of the assets of the Existing 10% Plan with respect to which Tenant or its Affiliate is a Party in Interest; or (ii) negotiate the terms of the management agreement with MGT, including renewals or modifications thereof, on behalf of the Existing 10% Plan; and

(B) neither Tenant nor any entity controlling, or controlled by Tenant owns a five percent (5%) or more interest (within the meaning of PTCE 84-14, "5% Interest") in J.P. Morgan Chase & Co.

(d) In the event that Landlord or the Fund notifies Tenant in writing that a Plan other than the Existing 10% Plan may become a 10% Plan, Tenant will, within ten (10) days of such notification, inform the Fund in writing as to whether it can make the same representations which it made in subsection (c) of this Section with respect to such prospective 10% Plan. Thereafter, if based on such representations made by Tenant such Plan becomes a 10% Plan, Tenant represents and warrants that, at all times during the period Tenant is a tenant

under the Lease, one of the statements set forth in subsection (c) will be true with respect to such 10% Plan.

Section 16.17. Option to Extend.

(a) Grant and Exercise of Option. Provided that (i) no default has occurred and is then continuing, (ii) the creditworthiness of Tenant is then reasonably acceptably to Landlord, and (iii) Tenant originally named herein [or its Permitted Transferee] remains in possession of and has been continuously operating in the entire Leased Premises throughout the Lease Term, Tenant shall have one (1) option to extend the Lease Term for one (1) additional period of three (3) years (the "Extension Term"). The Extension Term shall be upon the same terms and conditions contained in the Lease except (x) Tenant shall not have any further option to extend, (y) any improvement allowances or other concessions applicable to the Leased Premises under the Lease shall not apply to the Extension Term, and (z) the Minimum Annual Rent shall be adjusted as set forth herein ("Rent Adjustment"). Tenant shall exercise such option by delivering to Landlord, no later than six (6) months prior to the expiration of the current Lease Term, written notice of Tenant's desire to extend the Lease Term. Tenant's failure to properly exercise such option shall be deemed a waiver of such option. If Tenant properly exercises its option to extend, Landlord shall notify Tenant of the Rent Adjustment no later than ninety (90) days prior to the commencement of the Extension Term. Tenant shall be deemed to have accepted the Rent Adjustment if it fails to deliver to Landlord a written objection thereto within five (5) business days after receipt thereof. If Tenant properly exercises its option to extend, Landlord and Tenant shall execute an amendment to the Lease (or, at Landlord's option, a new lease on the form then in use for the Building) reflecting the terms and conditions of the Extension Term within thirty (30) days after Tenant's acceptance (or deemed acceptance) of the Rent Adjustment.

(b) Rent Adjustment. The Minimum Annual Rent for the Extension Term shall be an amount equal to the Minimum Annual Rent then being quoted by Landlord to prospective renewing tenants of the Building for space of comparable size and quality and with similar or equivalent improvements as are found in the Building, and if none, then in similar buildings in the Park; provided, however, that in no event shall the Minimum Annual Rent during the Extension Term be less than the highest Minimum Annual Rent payable during the immediately preceding term. The Monthly Rental Installments shall be an amount equal to one-twelfth (1/12) of the Minimum Annual Rent for the Extension Term and shall be paid at the same time and in the same manner as provided in the Lease."

11. Acknowledgment of Completion of Improvements. Tenant hereby acknowledges that the improvements designated as Landlord's obligations in Exhibit B-1 of the Lease have been completed in a satisfactory manner.

12. Brokerage Commissions. The parties hereby represent and warrant that the only real estate brokers involved in the negotiation and execution of this Amendment are Duke Realty Services Limited Partnership, representing Landlord, and Colliers Turley Martin Tucker, representing Tenant. Each party shall indemnify the other party from any and all liability for the breach of this representation and warranty on its part and shall pay any compensation to any other broker or person who may be entitled thereto.

13. Tenant's Representations and Warranties. The undersigned represents and warrants to Landlord that (i) Tenant is duly organized, validly existing and in good standing in accordance with the laws of the state under which it was organized; (ii) all action necessary to authorize the execution of this Amendment has been taken by Tenant; and (iii) the individual executing and delivering this Amendment on behalf of Tenant has been authorized to do so, and such execution and delivery shall bind Tenant. Tenant, at Landlord's request, shall provide Landlord with evidence of such authority.

14. Examination of Amendment. Submission of this instrument for examination or signature to Tenant does not constitute a reservation or option, and it is not effective until execution by and delivery to both Landlord and Tenant.

15. Definitions. Except as otherwise provided herein, the capitalized terms used in this Amendment shall have the definitions set forth in the Lease.

16. Incorporation. This Amendment shall be incorporated into and made a part of the Lease, and all provisions of the Lease not expressly modified or amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed on the day and year first written above.

LANDLORD:

DUGAN FINANCING LLC,
a Delaware limited liability company

By: Dugan Realty, L.L.C., its sole member

By: Duke Realty Limited Partnership,
its manager

By: Duke Realty Corporation,
its general partner

By: _____
Kevin T. Rogus
Senior Vice President

TENANT:

GAIAM, INC., a Colorado corporation

By: _____

Printed: _____

Title: _____

LEASE AGREEMENT

THIS LEASE is executed this 5th day of October, 2005, by and between DUGAN REALTY, L.L.C., an Indiana limited liability company (“Landlord”), and GAIAM, INC., a Colorado corporation (“Tenant”).

WITNESSETH:

ARTICLE 1 - LEASE OF PREMISES

Section 1.01. Basic Lease Provisions and Definitions.

A. Leased Premises (shown outlined on **Exhibit A** attached hereto): 5455 West Chester Road, West Chester, Ohio 45069; Building No. 7 (the “Building”); located in World Park at Union Centre (the “Park”);

B. Rentable Area: Approximately 147,000 square feet;

C. Tenant’s Proportionate Share: 53.85;

D. Minimum Annual Rent:

October 1, 2005 - September 30, 2006	\$ 463,050.00
October 1, 2006 - September 30, 2007	\$ 474,810.00
October 1, 2007 - September 30, 2008	\$ 486,570.00;

E. Monthly Rental Installments:

October 1, 2005 - September 30, 2006	\$ 38,587.50 per month
October 1, 2006 - September 30, 2007	\$ 39,567.50 per month
October 1, 2007 - September 30, 2008	\$ 40,547.50 per month;

F. ***[Intentionally Omitted]***;

G. Lease Term: Three (3) years;

H. Commencement Date: October 1, 2005;

I. Security Deposit: None;

J. Guarantor(s): None;

K. Brokers: Duke Realty Services Limited Partnership representing Landlord and Colliers Turley Martin Tucker representing Tenant;

L. Permitted Use: General office, warehousing and distribution of miscellaneous consumer goods and related purposes;

M. Address for notices:

Landlord: Dugan Realty, L.L.C.
 c/o Duke Realty Services Limited Partnership
 Attn: Property Manager
 4555 Lake Forest Drive, Suite 400
 Cincinnati, OH 45242

With a Copy to: Dugan Realty, L.L.C.
 c/o Duke Realty Services Limited Partnership
 Attn.: Jeff Behm
 600 East 96th Street, Suite 100
 Indianapolis, IN 46240

With Payments to: Dugan Realty, L.L.C.
 c/o Duke Realty Services Limited Partnership
 75 Remittance Drive, Suite 1106
 Chicago, IL 60675-1106

Tenant: Gaiam, Inc.
 Attn: Mark Lipien
 360 Interlochen Boulevard, Suite 300
 Broomfield, CO 80021

With a Copy to: Gaiam, Inc.
5455 West Chester Road
West Chester, OH 45069.

Section 1.02. Leased Premises. Landlord hereby leases to Tenant and Tenant leases from Landlord, under the terms and conditions herein, the Leased Premises.

ARTICLE 2 - TERM AND POSSESSION

Section 2.01. Term. The Commencement Date and Lease Term shall be as set forth in Sections 1.01(g) and 1.01(h) above.

Section 2.02. Construction of Tenant Improvements. Landlord shall construct and install all leasehold improvements to the Leased Premises (collectively, the "Tenant Improvements") in accordance with Exhibit B attached hereto and made a part hereof. Landlord hereby warrants for a period of one (1) year from the Commencement Date, the Leased Premises against defects in materials and workmanship, routine maintenance and ordinary wear and tear excepted. Upon the Commencement Date, Landlord shall enforce for the benefit of Tenant all other warranties relating to the Leased Premises and any and all systems contained therein for the applicable period of each warranty. Tenant shall not take any action which shall invalidate any of the foregoing warranties and shall provide Landlord with written notice of all warranty claims.

Section 2.03. Surrender of the Premises. Upon the expiration or earlier termination of this Lease, Tenant shall immediately surrender the Leased Premises to Landlord in broom-clean condition and in good condition and repair, normal wear and tear excepted. Tenant shall also remove its personal property, trade fixtures and any of Tenant's alterations designated by Landlord, promptly repair any damage caused by such removal, and restore the Leased Premises to the condition existing prior to the installation of such items. If Tenant fails to do so, Landlord may restore the Leased Premises to such condition at Tenant's expense, Landlord may cause all of said property to be removed at Tenant's expense, and Tenant hereby agrees to pay all the costs and expenses thereby reasonably incurred. All Tenant property which is not removed within ten (10) days following Landlord's written demand therefor shall be conclusively deemed to have been abandoned by Tenant, and Landlord shall be entitled to dispose of such property at Tenant's cost without thereby incurring any liability to Tenant. The provisions of this section shall survive the expiration or other termination of this Lease.

Section 2.04. Holding Over. If Tenant retains possession of the Leased Premises after the expiration or earlier termination of this Lease, Tenant shall become a tenant from month to month at 150% of the Monthly Rental Installment in effect at the end of the Lease Term, and otherwise upon the terms, covenants and conditions herein specified, so far as applicable. Acceptance by Landlord of rent in such event shall not result in a renewal of this Lease, and Tenant shall vacate and surrender the Leased Premises to Landlord upon Tenant being given thirty (30) days' prior written notice from Landlord to vacate. This Section 2.04 shall in no way constitute a consent by Landlord to any holding over by Tenant upon the expiration or earlier termination of this Lease, nor limit Landlord's remedies in such event.

ARTICLE 3 - RENT

Section 3.01. Base Rent. Tenant shall pay to Landlord the Minimum Annual Rent in the Monthly Rental Installments, in advance, without deduction or offset, beginning on the Commencement Date and on or before the first day of each and every calendar month thereafter during the Lease Term. The Monthly Rental Installment for partial calendar months shall be prorated. Notwithstanding anything contained in this Lease to the contrary, Tenant shall receive a per diem credit on the Monthly Rental Installment for November 2005 of one day's Minimum Annual Rent for each day beyond the Commencement Date in which the installation

of the lights and fire safety equipment within the warehouse portion of the Leased Premises is not achieved.

Section 3.02. Additional Rent. In addition to the Minimum Annual Rent Tenant shall pay to Landlord for each calendar year during the Lease Term, as "Additional Rent," Tenant's Proportionate Share of all costs and expenses incurred by Landlord during the Lease Term for Real Estate Taxes and Operating Expenses for the Building and common areas (collectively "Common Area Charges").

"Operating Expenses" shall mean all of Landlord's expenses for operation, repair, replacement and maintenance to keep the Building and common areas in good order, condition and repair (including all additional direct costs and expenses of operation and maintenance of the Building which Landlord reasonably determines it would have paid or incurred during such year if the Building had been fully occupied), including, but not limited to, management fees not to exceed three percent (3%) of gross rent for the Building; utilities; stormwater discharge fees; license, permit, inspection and other fees; fees and assessments imposed by any covenants or owners' association; security services; insurance premiums and deductibles, painting, and maintenance, repair and replacement of the driveways, parking areas (including snow removal), exterior lighting, landscaped areas, walkways, curbs, drainage strips, sewer lines, exterior walls, foundation, structural frame, roof and gutters. The cost of any capital improvement shall be amortized over the useful life of such improvement in accordance with generally accepted accounting principles, and only the amortized portion shall be included in Operating Expenses. Operating Expenses shall not include the following:

- a. Leasing commissions.
- b. The cost of tenant finish improvements provided solely for the benefit of other tenants or proposed tenants in the Building.
- c. Costs of correcting building code violations which violations were in existence on the Commencement Date and not caused by Tenant.

- d. Depreciation on the Building.
- e. The cost of services separately charged to and paid by another tenant in the Building.
- f. Interest payments and financing costs associated with Building financing.
- g. Legal fees associated with the preparation, interpretation and/or enforcement of leases.
- h. Repairs and replacements for which and to the extent that Landlord has been reimbursed by insurance and/or paid pursuant to warranties.
- i. Advertising and promotional expenses.
- j. Costs representing amounts paid to an affiliate of Landlord for services or materials which are in excess of the amounts which would have been paid in the absence of such relationship.

“Real Estate Taxes” shall include any form of real estate tax or assessment or service payments in lieu thereof, and any license fee, commercial rental tax, improvement bond or other similar charge or tax (other than inheritance, personal income or estate taxes) imposed upon the Building or common areas (or against Landlord’s business of leasing the Building) by any authority having the power to so charge or tax, together with costs and expenses of contesting the validity or amount of Real Estate Taxes.

Section 3.03. Payment of Additional Rent. Landlord shall estimate the total amount of Additional Rent to be paid by Tenant during each calendar year of the Lease Term, pro-rated for any partial years. Commencing on the Commencement Date, Tenant shall pay to Landlord each month, at the same time the Monthly Rental Installment is due, an amount equal to one-twelfth (1/12) of the estimated Additional Rent for such year. Within a reasonable time after the end of each calendar year, Landlord shall submit to Tenant a statement of the actual amount of such Additional Rent and within thirty (30) days after receipt of such statement, Tenant shall pay any deficiency between the actual amount owed and the estimates paid during such

calendar year. In the event of overpayment, Landlord shall credit the amount of such overpayment toward the next installments of Minimum Rent.

Section 3.04. Late Charges. Tenant acknowledges that Landlord shall incur certain additional unanticipated administrative and legal costs and expenses if Tenant fails to timely pay any payment required hereunder. Therefore, in addition to the other remedies available to Landlord hereunder, if any payment required to be paid by Tenant to Landlord hereunder shall become overdue, such unpaid amount shall bear interest from the due date thereof to the date of payment at the prime rate (as reported in the Wall Street Journal) of interest (“Prime Rate”) plus six percent (6%) per annum.

Landlord shall provide Tenant with a written notice of such payment default prior to assessing the late charge and Tenant shall have an additional five (5) days to cure such payment default before Landlord assesses any late charges; provided, however, that Landlord shall not be required to give such notice more than one (1) time with respect to any particular payment default, nor more than two (2) times in the consecutive twelve (12) month period with respect to any payment defaults in the aggregate.

Section 3.05. Nature of Rent. Landlord and Tenant agree that any base rent, percentage rent, if any, and all Additional Rent paid to Landlord under this Lease (collectively referred to in this Section as “Rent”) shall qualify as “rents from real property” within the meaning of Section 512(b)(3) of the Internal Revenue Code of 1986, as amended (the “Code”) and the U.S. Department of Treasury Regulations promulgated thereunder (the “Regulations”). In the event that Landlord, in its sole discretion, determines that there is any risk that all or part of any Rent shall not qualify as “rents from real property” for the purposes of Section 512(b)(3) of the Code and the Regulations promulgated thereunder, Tenant agrees (i) to cooperate with Landlord to restructure this Lease so as to cause all Rent to qualify as “rents from real property”, and (ii) to permit an assignment of this Lease, provided, however, that any adjustments required pursuant to this paragraph shall be made so as to produce the equivalent Rent (in economic terms) payable prior to such adjustment.

Section 3.06. Maximum Increase in Operating Expenses. Notwithstanding anything in this Lease to the contrary, Tenant will be responsible for Tenant’s Proportionate Share of Real Estate Taxes, including the reasonable costs and expenses of contesting the validity or amount of Real Estate Taxes, service payments in lieu of Real Estate Taxes, insurance premiums, utilities, snow removal and grass cutting (“Uncontrollable Expenses”), without regard to the level of increase in any or all of the above in any year or other period of time. Tenant’s obligation to pay all other Building Operating Expenses which are not Uncontrollable Expenses (herein “Controllable Expenses”) shall be limited to a five percent (5%) per annum increase over the amount the Controllable Expenses for the immediately preceding calendar year would have been had the Controllable Expenses increased by five percent (5%) in all previous calendar years beginning with the actual Controllable Expenses for the year ending December 31, 2006.

ARTICLE 4 - SECURITY DEPOSIT

[Intentionally Omitted].

ARTICLE 5 - USE

Section 5.01. Use of Leased Premises. The Leased Premises are to be used by Tenant solely for the Permitted Use and for no other purposes without the prior written consent of Landlord.

Section 5.02. Covenants of Tenant Regarding Use. Tenant shall (i) use and maintain the Leased Premises and conduct its business thereon in a safe, careful, reputable and lawful manner, (ii) comply with all laws, rules, regulations, orders, ordinances, directions and requirements of any governmental authority or agency, now in force or which may hereafter be in force, including without limitation those which shall impose upon Landlord or Tenant any duty with respect to or triggered by a change in the use or occupation of, or any improvement or alteration to, the Leased Premises, and (iii) comply with and obey all reasonable directions of the Landlord, including Rules and Regulations attached hereto as Exhibit C and as may be modified from time to time by Landlord on reasonable nondiscriminatory notice to Tenant. Tenant shall not do or permit anything to be done in or about the Leased Premises or common areas which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or injure or annoy them. Landlord shall not be responsible to Tenant for the

non-performance by any other tenant or occupant of the Building of any of the Building Rules and Regulations but agrees to take reasonable measures to assure such other tenant's compliance. Tenant shall not overload the floors of the Leased Premises. All damage to the floor structure or foundation of the Building due to improper positioning or storage of items or materials shall be repaired by Landlord at the sole expense of Tenant, who shall reimburse Landlord immediately therefor upon demand. Tenant shall not use the Leased Premises, or allow the Leased Premises to be used, for any purpose or in any manner which would invalidate any policy of insurance now or hereafter carried on the Building or increase the rate of premiums payable on any such insurance policy unless Tenant reimburses Landlord as Additional Rent for any increase in premiums charged.

Section 5.03. Landlord's Rights Regarding Use. In addition to the rights specified elsewhere in this Lease, Landlord shall have the following rights regarding the use of the Leased Premises or the common areas, each of which may be exercised without notice or liability to Tenant, (a) Landlord may install such signs, advertisements, notices or tenant identification information as it shall deem necessary or proper; (b) Landlord shall have the right at any time to control, change or otherwise alter the common areas or utilities servicing the Building as it shall deem necessary or proper; and (c) Landlord or Landlord's agent shall be permitted to inspect or examine the Leased Premises at any reasonable time, and Landlord shall have the right to make any repairs to the Leased Premises which are necessary for its preservation; provided, however, that any repairs made by Landlord shall be at Tenant's expense, except as provided in Section 7.02 hereof. Landlord shall incur no liability to Tenant for such entry, nor shall such entry constitute an eviction of Tenant or a termination of this Lease, or entitle Tenant to any abatement of rent therefor. Landlord shall not materially interfere with Tenant's access to the Leased Premises.

ARTICLE 6 - UTILITIES AND SERVICES

Tenant shall obtain in its own name and pay directly to the appropriate supplier the cost of all utilities and services serving the Leased Premises. However, if any services or utilities are jointly metered with other property, Landlord shall make a reasonable determination of Tenant's proportionate share of the cost of such utilities and services (at rates that would have been payable if such utilities and services had been directly billed by the utilities or services providers) and Tenant shall pay such share to Landlord within fifteen (15) days after receipt of Landlord's written statement. Landlord shall not be liable in damages or otherwise for any failure or interruption of any utility or other Building service and no such failure or interruption shall entitle Tenant to terminate this Lease or withhold sums due hereunder. In the event of utility "deregulation", Landlord shall choose the service provider.

ARTICLE 7 - MAINTENANCE AND REPAIRS

Section 7.01. Tenant's Responsibility. During Lease Term, Tenant shall, at its own cost and expense, maintain the Leased Premises in good condition, regularly servicing and promptly making all repairs and replacements thereto, including but not limited to the electrical systems, heating and air conditioning systems, plate glass, floors, windows and doors, sprinkler and plumbing systems, and shall obtain a preventive maintenance contract on the heating, ventilating and air-conditioning systems, and provide Landlord with a copy thereof. The preventive maintenance contract shall meet or exceed Landlord's standard maintenance criteria, and shall provide for the inspection and maintenance of the heating, ventilating and air conditioning system on not less than a semi-annual basis.

Section 7.02. Landlord's Responsibility. During the term of this Lease, Landlord shall maintain in good condition and repair, and replace as necessary, the roof, exterior walls, foundation and structural frame of the Building and the parking and landscaped areas, the costs of which shall be included in Operating Expenses; provided, however, that to the extent any of the foregoing items require repair because of the negligence, misuse, or default of Tenant, its employees, agents, customers or invitees, Landlord shall make such repairs solely at Tenant's expense.

Section 7.03. Alterations. Tenant shall not permit alterations in or to the Leased Premises unless and until Landlord has approved the plans therefor in writing, such approval shall not be unreasonably withheld. As a condition of such approval, Landlord may require Tenant to remove the alterations and restore the Leased Premises upon termination of this Lease; otherwise, all such alterations shall at Landlord's option become a part of the realty and the property of Landlord, and shall not be removed by Tenant. Landlord shall notify Tenant of any such requirement at the time of approval of such alterations. Tenant shall ensure that all

alterations shall be made in accordance with all applicable laws, regulations and building codes, in a good and workmanlike manner and of quality equal to or better than the original construction of the Building. No person shall be entitled to any lien derived through or under Tenant for any labor or material furnished to the Leased Premises, and nothing in this Lease shall be construed to constitute Landlord's consent to the creation of any lien. If any lien is filed against the Leased Premises for work claimed to have been done for or material claimed to have been furnished to Tenant, Tenant shall cause such lien to be discharged of record within thirty (30) days after filing. Tenant shall indemnify Landlord from all costs, losses, expenses and attorneys' fees in connection with any construction or alteration and

any related lien. Tenant agrees that at Landlord's option, Duke Construction Limited Partnership or a subsidiary or affiliate of Landlord, who shall receive a fee as Landlord's construction manager or general contractor, shall perform all work on (i) any alterations to the heating, ventilating and air conditioning systems serving the warehouse portion of the Leased Premises, and (ii) any alterations that change the floor plan of the Leased Premises from that which is attached hereto as **Exhibit F** and made a part hereof.

ARTICLE 8 - CASUALTY

Section 8.01. Casualty. In the event of total or partial destruction of the Building or the Leased Premises by fire or other casualty, Landlord agrees to promptly restore and repair the Leased Premises; provided, however, Landlord's obligation hereunder shall be limited to the reconstruction of such of the tenant finish improvements as were originally required to be made by Landlord, if any. Rent shall proportionately abate during the time that the Leased Premises or part thereof are unusable because of any such damage. Notwithstanding the foregoing, if the Leased Premises are (i) so destroyed that they cannot be repaired or rebuilt within one hundred eighty (180) days from the casualty date; or (ii) destroyed by a casualty which is not covered by the insurance required hereunder or, if covered, such insurance proceeds are not released by any mortgagee entitled thereto or are insufficient to rebuild the Building and the Leased Premises; then, in case of a clause (i) casualty, either Landlord or Tenant may, or, in the case of a clause (ii) casualty, then Landlord may, upon thirty (30) days' written notice to the other party, terminate this Lease with respect to matters thereafter accruing. Landlord shall use commercially reasonable efforts to notify Tenant within thirty (30) days after the casualty date of Landlord's decision to repair, rebuild and restore the Leased Premises or to terminate this Lease as provided for herein.

Section 8.02. Fire and Extended Coverage Insurance. During the Lease Term, Landlord shall maintain all risk coverage insurance on the Building, but shall not protect Tenant's property on the Leased Premises; and, notwithstanding the provisions of **Section 9.01**, Landlord shall not be liable for any damage to Tenant's property, regardless of cause, including the negligence of Landlord and its employees, agents and invitees. Tenant hereby expressly waives any right of recovery against Landlord for damage to any property of Tenant located in or about the Leased Premises, however caused, including the negligence of Landlord and its employees, agents and invitees. Notwithstanding the provisions of **Section 9.01** below, Landlord hereby expressly waives any rights of recovery against Tenant for damage to the Leased Premises or the Building which is insured against under Landlord's all risk coverage insurance. All insurance policies maintained by Landlord or Tenant as provided in this Lease shall contain an agreement by the insurer waiving the insurer's right of subrogation against the other party to this Lease.

ARTICLE 9 - LIABILITY INSURANCE

Section 9.01. Tenant's Responsibility. Landlord shall not be liable to Tenant or to any other person for (i) damage to property or injury or death to persons due to the condition of the Leased Premises, the Building or the common areas, or (ii) the occurrence of any accident in or about the Leased Premises or the common areas, or (iii) any act or neglect of Tenant or any other tenant or occupant of the Building or of any other person, unless such damage, injury or death is directly and solely the result of Landlord's negligence; and Tenant hereby releases Landlord from any and all liability for the same except for damages occasioned by Landlord's negligence. Tenant shall be liable for, and shall indemnify and defend Landlord from, any and all liability for (i) any act or neglect of Tenant and any person coming on the Leased Premises or common areas by the license of Tenant, express or implied, (ii) any damage to the Leased Premises, and (iii) any loss of or damage or injury to any person (including death resulting therefrom) or property occurring in, on or about the Leased Premises, regardless of cause, except for any loss or damage from fire or casualty insured as provided in **Section 8.02** and

except for that caused directly by Landlord's negligence. This provision shall survive the expiration or earlier termination of this Lease.

Section 9.02. Tenant's Insurance. Tenant shall carry general public liability and property damage insurance, issued by one or more insurance companies acceptable to Landlord, with the following minimum coverages:

- A. Worker's Compensation: minimum statutory amount.
- B. Commercial General Liability Insurance, including blanket, contractual liability, broad form property damage, personal injury, completed operations, products liability, and fire damage: Not less than \$3,000,000 Combined Single Limit for both bodily injury and property damage.
- C. All Risk Coverage, Vandalism and Malicious Mischief, and Sprinkler Leakage insurance, if applicable, for the full cost of replacement of Tenant's property.
- D. Business interruption insurance.

The insurance policies shall protect Tenant and Landlord as their interests may appear, naming Landlord and Landlord's managing agent and mortgagee as additional insureds, and shall provide that they may not be canceled on less than thirty (30) days' prior written notice to Landlord. Tenant shall furnish Landlord with Certificates of Insurance evidencing all required coverages on or before the Commencement Date. If Tenant fails to carry such insurance and furnish Landlord with such Certificates of Insurance after a request to do so, Landlord may obtain such insurance and collect the cost thereof from Tenant.

ARTICLE 10 - EMINENT DOMAIN

If all or any substantial part of the Building or common areas shall be acquired by the exercise of eminent domain, Landlord may terminate this Lease by giving written notice to Tenant within fifteen (15) days after possession thereof is so taken. If all or any part of the Leased Premises shall be acquired by the exercise of eminent domain so that the Leased Premises shall become unusable by Tenant for the Permitted Use, Tenant may terminate this Lease by giving written notice to Landlord within fifteen (15) days after possession

thereof is so taken. All damages awarded shall belong to Landlord; provided, however, that Tenant may claim dislocation damages if such amount is not subtracted from Landlord's award.

ARTICLE 11 - ASSIGNMENT AND SUBLEASE

Tenant shall not assign this Lease or sublet the Leased Premises in whole or in part without Landlord's prior written consent, which consent shall not be unreasonably withheld, delayed or denied. In the event of any assignment or subletting, Tenant shall remain primarily liable hereunder. The acceptance of rent from any other person shall not be deemed to be a waiver of any of the provisions of this Lease or to be a consent to the assignment of this Lease or the subletting of the Leased Premises. Without in any way limiting Landlord's right to refuse to consent to any assignment or subletting of this Lease, Landlord reserves the right to refuse to give such consent if in Landlord's opinion (i) the Leased Premises are or may be in any way adversely affected; (ii) the business reputation of the proposed assignee or subtenant is unacceptable; or (iii) the financial worth of the proposed assignee or subtenant is insufficient to meet the obligations hereunder. Landlord further expressly reserves the right to refuse to give its consent to any subletting if the proposed rent is to be publicly advertised (such as by fliers, letters, and written or electronic marketing materials) to be less than the then current rent for similar premises in the Park; provided that Tenant or its broker shall not be precluded from marketing the Leased Premises for sublease pursuant to customary methods employed by the commercial real estate brokerage community in the market. If Tenant shall make any assignment or sublease, with Landlord's consent, for a rental in excess of the rent payable under this Lease, Tenant shall not be entitled to keep such excess, and Tenant shall pay to Landlord fifty percent (50%) of any such excess rental upon receipt. Tenant agrees to reimburse Landlord for reasonable accounting and attorneys' fees incurred in conjunction (not to exceed One Thousand Dollars (\$1,000.00)) with the processing and documentation of any such requested assignment, subletting or any other hypothecation of this Lease or Tenant's interest in and to the Leased Premises. Notwithstanding the foregoing, Tenant may assign the Lease or sublease all or any portion of the Leased Premises without Landlord's consent to any of the following (a "Permitted Transferee"), provided that the Permitted Transferee's financial condition, creditworthiness and business reputation following the transfer are equal to or exceed those of Tenant: (i) any

successor corporation or other entity resulting from a merger or consolidation of Tenant; (ii) any purchaser of all or substantially all of Tenant's assets; or (iii) any entity which controls, is controlled by, or is under common control with Tenant. Tenant shall give Landlord at least thirty (30) days' prior written notice of such assignment or sublease. Any Permitted Transferee shall assume in writing all of Tenant's obligations under this Lease. Tenant shall nevertheless at all times remain fully responsible and liable for the payment of rent and the performance and observance of all of Tenant's other obligations under this Lease. Nothing in this paragraph is intended to nor shall permit Tenant to transfer its interest under this Lease as part of a fraud or subterfuge to intentionally avoid its obligations under this Lease (for example, transferring its interest to a shell corporation that subsequently files a bankruptcy), and any such transfer shall constitute an Event of Default hereunder.

ARTICLE 12 - TRANSFERS BY LANDLORD

Section 12.01. Sale of the Building. Landlord shall have the right to sell the Building at any time during the Lease Term, subject only to the rights of Tenant hereunder; and such sale shall operate to release Landlord from liability hereunder after the date of such conveyance.

Section 12.02. Subordination and Estoppel Certificate. Within ten (10) days following receipt of a written request from Landlord, Tenant shall execute and deliver to Landlord, without cost, an estoppel certificate in such form as Landlord may reasonably request certifying (i) that this Lease is in full force and effect and unmodified or stating the nature of any modification, (ii) the date to which rent has been paid, (iii) that there are not, to Tenant's knowledge, any uncured defaults or specifying such defaults if any are claimed, and (iv) any other matters or state of facts reasonably required respecting the Lease. Such estoppel may be relied upon by Landlord and by any purchaser or mortgagee of the Building. This Lease is and shall be expressly subject and subordinate at all times to the lien of any present or future mortgage or deed of trust encumbering fee title to the Leased Premises. If any such mortgage or deed of trust be foreclosed, upon request of the mortgagee or beneficiary ("Landlord's Mortgagee"), as the case may be, Tenant will attorn to the purchaser at the foreclosure sale. The foregoing provisions are declared to be self-operative and no further instruments shall be required to effect such subordination and/or attornment; provided, however, that subordination of this Lease to any present or future mortgage or trust deed shall be conditioned upon the mortgagee, beneficiary, or purchaser at foreclosure, as the case may be agreeing that Tenant's occupancy of the Leased Premises and other rights under this Lease shall not be disturbed by reason of the foreclosure of such mortgage or trust deed, as the case may be, so long as Tenant is not in default under this Lease; and further provided that Tenant agrees upon request by any such mortgagee, beneficiary, or purchaser at foreclosure, as the case may be, to execute such non-disturbance, subordination and/or attornment instruments as may be reasonably required by such person to confirm such non-disturbance subordination and/or attornment.

Any Landlord's Mortgagee may elect, at any time, unilaterally, to make this Lease superior to its mortgage or other interest in the Leased Premises by so notifying Tenant in writing.

Tenant shall not seek to enforce any remedy it may have for any default on the part of Landlord without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail, to any Landlord's Mortgagee whose address has been given to Tenant, and affording such Landlord's Mortgagee a reasonable opportunity to perform Landlord's obligations hereunder.

If Landlord's Mortgagee shall succeed to the interest of Landlord under this Lease, Landlord's Mortgagee shall not be: (1) liable for any act or omission of any prior landlord (including Landlord); (2) bound by any rent or additional rent or advance rent which Tenant might have paid for more than the current month to any prior landlord (including Landlord), and all such rent shall remain due and owing, notwithstanding such advance payment; (3) bound by any security or advance rental deposit made by Tenant which is not delivered or paid over to Landlord's Mortgagee and with respect to which Tenant shall look solely to Landlord for refund or reimbursement (provided,

however, that Landlord shall be responsible for delivering any Security Deposit hereunder to Landlord's Mortgagee at the time Landlord's Mortgagee succeeds to Landlord's interest hereunder); (4) bound by any termination, amendment or modification of this Lease made without Landlord's Mortgagee's consent and written approval, except for those terminations, amendments and modifications permitted to be made by Landlord without Landlord's Mortgagee's consent pursuant to the terms of the loan documents between Landlord and Landlord's Mortgagee; (5) subject to the defenses which Tenant might have against any prior landlord (including Landlord); and (6) subject to the offsets which Tenant might have against

any prior landlord (including Landlord) except for those offset rights which (A) are expressly provided in this Lease, (B) relate to periods of time following the acquisition of the Building by Landlord's Mortgagee, and (C) Tenant has provided written notice to Landlord's Mortgagee and provided Landlord's Mortgagee a reasonable opportunity (the duration of which shall not exceed thirty (30) days after Landlord's Mortgagee takes possession of the Building) to cure the event giving rise to such offset event. Landlord's Mortgagee shall have no liability or responsibility under or pursuant to the terms of this Lease or otherwise after it ceases to own an interest in the Building. Nothing in this Lease shall be construed to require Landlord's Mortgagee to see to the application of the proceeds of any loan, and Tenant's agreements set forth herein shall not be impaired on account of any modification of the documents evidencing and securing any loan.

ARTICLE 13 - DEFAULT AND REMEDY

Section 13.01. Default. The occurrence of any of the following shall be a "Default":

(a) Tenant fails to pay any Monthly Rental Installment or Additional Rent within five (5) days after the same is due, or Tenant fails to pay any other amounts due Landlord from Tenant within ten (10) days after the same is due.

(b) Tenant fails to perform or observe any other term, condition, covenant or obligation required under this Lease for a period of ten (10) days after notice thereof from Landlord; provided, however, that if the nature of Tenant's default is such that more than ten days are reasonably required to cure, then such default shall be deemed to have been cured if Tenant commences such performance within said ten-day period and thereafter diligently completes the required action within a reasonable time.

(c) Tenant shall assign or sublet all or a portion of the Leased Premises in contravention of the provisions of Article 11 of this Lease.

(d) All or substantially all of Tenant's assets in the Leased Premises or Tenant's interest in this Lease are attached or levied under execution (and Tenant does not discharge the same within sixty (60) days thereafter); a petition in bankruptcy, insolvency or for reorganization or arrangement is filed by or against Tenant (and Tenant fails to secure a stay or discharge thereof within sixty (60) days thereafter); Tenant is insolvent and unable to pay its debts as they become due; Tenant makes a general assignment for the benefit of creditors; Tenant takes the benefit of any insolvency action or law; the appointment of a receiver or trustee in bankruptcy for Tenant or its assets if such receivership has not been vacated or set aside within thirty (30) days thereafter; or, dissolution or other termination of Tenant's corporate charter if Tenant is a corporation.

(e) In addition to the defaults and remedies described herein, the parties agree that if Tenant is in violation of the performance of any (but not necessarily the same) term or condition of this Lease three (3) or more times during any twelve (12) month period, regardless of whether such violations are ultimately cured, then such conduct shall, at Landlord's option, represent a separate Default.

Section 13.02. Remedies. Upon the occurrence of any Default, Landlord shall have the following rights and remedies, in addition to those allowed by law or in equity, any one or more of which may be exercised without further notice to Tenant:

(a) Landlord may apply the Security Deposit or re-enter the Leased Premises and cure any default of Tenant, and Tenant shall reimburse Landlord as additional rent for any costs and expenses which Landlord thereby incurs; and Landlord shall not be liable to Tenant for any loss or damage which Tenant may sustain by reason of Landlord's action.

(b) Landlord may terminate this Lease or, without terminating this Lease, terminate Tenant's right to possession of the Leased Premises as of the date of such default, and thereafter (i) neither Tenant nor any person claiming under or through Tenant shall be entitled to possession of the Leased Premises, and Tenant shall immediately surrender the Leased Premises to Landlord; and (ii) Landlord may re-enter the Leased Premises and dispossess Tenant and any other occupants of the Leased Premises by any lawful means and may remove their effects, without prejudice to any other remedy which Landlord may have. Upon the termination of this Lease, Landlord may declare the present value (discounted at the Prime Rate of interest) of all rent which would have been due under this Lease for the balance of the Lease Term to be immediately due and payable, whereupon Tenant shall be obligated to pay the same to Landlord, together with all loss or damage which Landlord may sustain by reason of Tenant's

default ("Default Damages"), which shall include without limitation expenses of preparing the Leased Premises for re-letting, demolition, repairs, tenant finish improvements and brokers' and attorneys' fees, it being expressly understood and agreed that the liabilities and remedies specified in this subsection (b) shall survive the termination of this Lease.

(c) Landlord may, without terminating this Lease, re-enter the Leased Premises and re-let all or any part thereof for a term different from that which would otherwise have constituted the balance of the Lease Term and for rent and on terms and conditions different from those contained herein, whereupon Tenant shall be immediately obligated to pay to Landlord as liquidated damages the

difference between the rent provided for herein and that provided for in any lease covering a subsequent re-letting of the Leased Premises, for the period which would otherwise have constituted the balance of the Lease Term, together with all of Landlord's Default Damages.

(d) Landlord may sue for injunctive relief or to recover damages for any loss resulting from the breach.

(e) If Landlord has terminated this Lease or Tenant's right to possession, Landlord agrees to use commercially reasonable efforts to mitigate its damages. Landlord shall be required only to use reasonable efforts to mitigate, which shall not exceed such efforts as Landlord generally uses to lease other space in the Building. Landlord will not be deemed to have failed to mitigate if Landlord leases any other portions of the Building before reletting all or any portion of the Leased Premises. Landlord shall not be deemed to have failed to mitigate if it incurs Default Damages. If Tenant has paid Landlord the present value of all rent due plus Default Damages as set forth in Section 13.02(b) above, Landlord agrees to pay Tenant any rent received by Landlord from any tenant who leases the Leased Premises which amount was already paid by Tenant as part of the accelerated rent.

Section 13.03. Landlord's Default and Tenant's Remedies. Landlord shall be in default if it fails to perform any term, condition, covenant or obligation required under this Lease for a period of thirty (30) days after written notice thereof from Tenant to Landlord; provided, however, that if the term, condition, covenant or obligation to be performed by Landlord is such that it cannot reasonably be performed within thirty (30) days, such default shall be deemed to have been cured if Landlord commences such performance within said thirty-day period and thereafter diligently undertakes to complete the same. Upon the occurrence of any such default, Tenant may sue for injunctive relief or to recover damages for any loss directly resulting from the breach, but Tenant shall not be entitled to terminate this Lease or withhold, offset or abate any sums due hereunder.

Section 13.04. Limitation of Landlord's Liability. If Landlord shall fail to perform any term, condition, covenant or obligation required to be performed by it under this Lease and if Tenant shall, as a consequence thereof, recover a money judgment against Landlord, Tenant agrees that it shall look solely to Landlord's right, title and interest in and to the Building for the collection of such judgment; and Tenant further agrees that no other assets of Landlord shall be subject to levy, execution or other process for the satisfaction of Tenant's judgment.

Section 13.05. Nonwaiver of Defaults. Neither party's failure or delay in exercising any of its rights or remedies or other provisions of this Lease shall constitute a waiver thereof or affect its right thereafter to exercise or enforce such right or remedy or other provision. No waiver of any default shall be deemed to be a waiver of any other default. Landlord's receipt of less than the full rent due shall not be construed to be other than a payment on account of rent then due, nor shall any statement on Tenant's check or any letter accompanying Tenant's check be deemed an accord and satisfaction. No act or omission by Landlord or its employees or agents during the term of this Lease shall be deemed an acceptance of a surrender of the Leased Premises, and no agreement to accept such a surrender shall be valid unless in writing and signed by Landlord.

Section 13.06. Attorneys' Fees. If either party defaults in the performance or observance of any of the terms, conditions, covenants or obligations contained in this Lease and the non-defaulting party obtains a judgment against the defaulting party, then the defaulting party agrees to reimburse the non-defaulting party for the attorneys' fees incurred thereby.

ARTICLE 14 - LANDLORD'S RIGHT TO RELOCATE TENANT

[Intentionally Omitted]

ARTICLE 15 - TENANT'S RESPONSIBILITY REGARDING ENVIRONMENTAL LAWS AND HAZARDOUS SUBSTANCES.

Section 15.01. Definitions.

(a) "Environmental Laws" - All present or future federal, state and municipal laws, ordinances, rules and regulations applicable to the environmental and ecological condition of the Leased Premises, the rules and regulations of the Federal Environmental Protection Agency or any other federal, state or municipal agency or governmental board or entity having jurisdiction over the Leased Premises.

(b) "Hazardous Substances" - Those substances included within the definitions of "hazardous substances," "hazardous materials," "toxic substances" "solid waste" or "infectious waste" under Environmental Laws.

Section 15.02. Compliance. Tenant, at its sole cost and expense, shall promptly comply with the Environmental Laws including any notice from any source issued pursuant to the Environmental Laws or issued by any insurance company which shall impose any duty upon Tenant with respect to the use, occupancy, maintenance or alteration of the Leased Premises whether such notice shall be served upon Landlord or Tenant.

Section 15.03. Restrictions on Tenant. Tenant shall operate its business and maintain the Leased Premises in compliance with all Environmental Laws. Tenant shall not cause or permit the use, generation, release, manufacture, refining, production, processing, storage or disposal of any Hazardous Substances on, under or about the Leased Premises, or the transportation to or from the Leased Premises of any Hazardous Substances, except as necessary and appropriate for its Permitted Use in which case the use, storage or disposal of such Hazardous Substances shall be performed in compliance with the Environmental Laws and the highest standards prevailing in the industry.

Section 15.04. Notices, Affidavits, Etc. Tenant shall immediately notify Landlord of (i) any violation by Tenant, its employees,

agents, representatives, customers, invitees or contractors of the Environmental Laws on, under or about the Leased Premises, or (ii) the presence or suspected presence of any Hazardous Substances on, under or about the Leased Premises and shall immediately deliver to Landlord any notice received by Tenant relating to (i) and (ii) above from any source. Tenant shall execute affidavits, representations and the like within five (5) days of Landlord's request therefor concerning Tenant's best knowledge and belief regarding the presence of any Hazardous Substances on, under or about the Leased Premises.

Section 15.05. Landlord's Rights. Landlord and its agents shall have the right, but not the duty, upon advance notice (except in the case of emergency when no notice shall be required) to inspect the Leased Premises and conduct tests thereon to determine whether or the extent to which there has been a violation of Environmental Laws by Tenant or whether there are Hazardous Substances on, under or about the Leased Premises. In exercising its rights herein, Landlord shall use reasonable efforts to minimize interference with Tenant's business but such entry shall not constitute an eviction of Tenant, in whole or in part, and Landlord shall not be liable for any interference, loss, or damage to Tenant's property or business caused thereby.

Section 15.06. Tenant's Indemnification. Tenant shall indemnify Landlord and Landlord's managing agent from any and all claims, losses, liabilities, costs, expenses and damages, including attorneys' fees, costs of testing and remediation costs, incurred by Landlord in connection with any breach by Tenant of its obligations under this Article 15. The covenants and obligations under this Article 15 shall survive the expiration or earlier termination of this Lease.

Section 15.07. Landlord's Representation. Notwithstanding anything contained in this Article 15 to the contrary, Tenant shall not have any liability to Landlord under this Article 15 resulting from any conditions existing, or events occurring, or any Hazardous Substances existing or generated, at, in, on, under or in connection with the Leased Premises prior to the Commencement Date of this Lease except to the extent Tenant exacerbates the same.

ARTICLE 16 - MISCELLANEOUS

Section 16.01. Benefit of Landlord and Tenant. This Lease shall inure to the benefit of and be binding upon Landlord and Tenant and their respective successors and assigns.

Section 16.02. Governing Law. This Lease shall be governed in accordance with the laws of the State of where the Building is located.

Section 16.03. Guaranty. *[Intentionally Omitted]*.

Section 16.04. Force Majeure. Landlord and Tenant (except with respect to any rent payment obligation) shall be excused for the period of any delay in the performance of any obligation hereunder when such delay is occasioned by causes beyond its control, including but not limited to work stoppages, boycotts, slowdowns or strikes; shortages of materials, equipment, labor or energy; unusual weather conditions; or acts or omissions of governmental or political bodies.

Section 16.05. Examination of Lease. Submission of this instrument for examination or signature to Tenant does not constitute a reservation of or option for Lease, and it is not effective as a Lease or otherwise until execution by and delivery to both Landlord and Tenant.

Section 16.06. Indemnification for Leasing Commissions. The parties hereby represent and warrant that the only real estate brokers involved in the negotiation and execution of this Lease are the Brokers. Landlord shall pay commissions to the Brokers pursuant to a separate agreement. Each party shall indemnify the other from any and all liability for the breach of this representation and warranty on its part and shall pay any compensation to any other broker or person who may be entitled thereto.

Section 16.07. Notices. Any notice required or permitted to be given under this Lease or by law shall be deemed to have been given if it is written and delivered in person or by overnight courier or mailed by certified mail, postage prepaid, to the party who is to receive such notice at the address specified in Article 1. When so mailed, the notice shall be deemed to have been given as of the date it was mailed. Either party may change its address by giving written notice thereof to the other party.

Section 16.08. Partial Invalidity: Complete Agreement. If any provision of this Lease shall be held to be invalid, void or unenforceable, the remaining provisions shall remain in full force and effect. This Lease represents the entire agreement between Landlord and Tenant covering everything agreed upon or understood in this transaction. There are no oral promises, conditions, representations, understandings, interpretations or terms of any kind as conditions or inducements to the execution hereof or in effect between the parties. No change or addition shall be made to this Lease except by a written agreement executed by Landlord and Tenant.

Section 16.09. Financial Statements. During the Lease Term and any extensions thereof, Tenant shall provide to Landlord on an annual basis, within ninety (90) days following the end of Tenant's fiscal year, a copy of Tenant's most recent financial statements (certified and audited if the Minimum Annual Rent hereunder exceeds \$100,000.00) prepared as of the end of Tenant's fiscal year. Such financial statements shall be signed by Tenant who shall attest to the truth and accuracy of the information set forth in such statements, or if the Minimum Annual Rent hereunder exceeds \$100,000.00, said statements shall be certified and audited. All financial statements provided by Tenant to Landlord hereunder shall be prepared in conformity with generally accepted accounting principles, consistently applied. Notwithstanding the foregoing, if (i) the named tenant, Gaiam, Inc., is Tenant, (ii) Tenant's financial statements are publicly available, and (iii) such statements comply with the provisions hereinabove, then Landlord shall not request Tenant's financial statements from Tenant.

Section 16.10. Representations and Warranties. The undersigned represent and warrant that (i) such party is duly organized,

validly existing and in good standing (if applicable) in accordance with the laws of the state under which it was organized; and (ii) the individual executing and delivering this Lease has been properly authorized to do so, and such execution and delivery shall bind such party.

Section 16.11. Agency Disclosure. Tenant acknowledges having previously received the Agency Disclosure Statement attached. The broker as provided in Item I of the Basic Lease Provisions, its agents and employees, have represented only Landlord, and have not in any way represented Tenant, in the marketing, negotiation, and completion of this lease transaction.

Section 16.12. Signs. Tenant may, at its own expense, erect a sign concerning the business of Tenant which shall be in keeping with the decor and other signs on the Building. All

signage (including the signage described in the preceding sentence) in or about the Leased Premises shall be first approved by Landlord, which approval shall not be unreasonably withheld, and all signage shall be in compliance with the applicable codes and any recorded restrictions applicable to the Building. Tenant agrees to maintain any sign in good state of repair, and upon expiration of the Lease Term, Tenant agrees to promptly remove such signs and repair any resulting damage to the Leased Premises.

Section 16.13. ERISA Matters.

(a) Tenant acknowledges that it has been advised that an affiliate of Landlord is a collective investment fund (the "Fund") which holds the assets of one or more employee benefit plans or retirement arrangements which are subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code") (each a "Plan"), and with respect to which Morgan Guaranty Trust Company of New York ("MGT") is the Trustee and that, as a result, Landlord may be prohibited by law from engaging in certain transactions.

(b) Landlord hereby represents and warrants to Tenant that, as of the date hereof, the only Plans whose assets are invested in the Fund which, together with the interests of any other Plans maintained by the same employer or employee organization, represent a collective interest in the Fund in excess of ten percent (10%) of the total interests in the Fund (each, a "10% Plan") are referenced on **Exhibit D** (collectively, the "Existing 10% Plan").

(c) Tenant represents and warrants that as of the date hereof, and at all times while it is a Tenant under this Lease, one of the following statements is, and will continue to be, true: (1) Tenant is not a "party in interest" (as defined in Section 3(14) of ERISA) or a "disqualified person" (as defined in Section 4975 of the Code) (each, a "Party in Interest") with respect to the Existing 10% Plan or, (2) if Tenant is a Party in Interest, that:

(A) neither Tenant nor its "affiliate" (as defined in Section V(c) of PTCE 84-14, "Affiliate") has, or during the immediately preceding one (1) year has, exercised the authority to either: (i) appoint or terminate MGT as the qualified professional asset manager (as defined in Section V(a) of PTCE 84-14, "QPAM") of any of the assets of the Existing 10% Plan with respect to which Tenant or its Affiliate is a Party in Interest; or (ii) negotiate the terms of the management agreement with MGT, including renewals or modifications thereof, on behalf of the Existing 10% Plan; and

(B) neither Tenant nor any entity controlling, or controlled by Tenant owns a five percent (5%) or more interest (within the meaning of PTCE 84-14, "5% Interest") in J.P. Morgan Chase & Co.

(d) In the event that Landlord or the Fund notifies Tenant in writing that a Plan other than the Existing 10% Plan may become a 10% Plan, Tenant will, within ten (10) days of such notification, inform the Fund in writing as to whether it can make the same representations which it made in subsection (c) of this Section with respect to such prospective 10% Plan. Thereafter, if based on such representations made by Tenant such Plan becomes a 10% Plan, Tenant represents and warrants that, at all times during the period Tenant is a tenant under the Lease, one of the statements set forth in subsection (c) will be true with respect to such 10% Plan.

[SIGNATURES CONTAINED ON THE FOLLOWING PAGES]

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the day and year first above written.

LANDLORD:
DUGAN REALTY, L.L.C.,
an Indiana limited liability company

By: Duke Realty Limited Partnership,
an Indiana limited partnership, its
member

By: Duke Realty Corporation,
an Indiana corporation,
its general partner

By: _____

Gaiam, Inc.
Executive Officer Compensation

Name	Title	Annual Base Salary
Jane Pemberton	President of GT Media and Gaiam Trade Decision	\$ 300,000
Lou Weiss	President of Direct, GT Media	\$ 285,000

Ms. Pemberton will receive a bonus of \$150,000 during her first year of service, to be paid in equal installments on May 1, 2007 and December 1, 2007. Thereafter, she may receive a bonus of up to 50% of salary, with the award being determined by reference to a matrix of possible performance levels based on Gaiam's achievement of revenue and pre-tax earnings objectives under Gaiam's financial plan. Ms. Pemberton will also be reimbursed for up to \$25,000 of moving expenses, she will receive a monthly housing/cost of living allowance of \$5,000, and she received options to purchase 75,000 shares of Gaiam Class A common stock. Ms. Pemberton will be entitled to a severance payment of \$60,000 if terminated without cause.

Mr. Weiss may receive a bonus of up to 50% of salary, with the award being determined by reference to a matrix of possible performance levels based on Gaiam's achievement of revenue and pre-tax earnings objectives under Gaiam's financial plan. Mr. Weiss' bonus for the 12 months ending September 30, 2006 is guaranteed to be at least \$27,500 quarterly. In addition, Mr. Weiss received a bonus of \$25,000 upon the closing of Gaiam's acquisition of certain assets of GoodTimes Entertainment and options to purchase 75,000 shares of Gaiam Class A common stock.

Gaiam, Inc.
Nonemployee Director Compensation

Event	Compensation
Meeting Fee	\$3,000 per meeting
Telephonic Meeting Fee	\$1,000 per meeting
Committee Meeting Fee	\$500 per meeting
Committee Telephonic Meeting Fee	\$250 per meeting
Standing Committee Chairman's Fee	\$2,000 annually

Gaiam Subsidiaries	State or Country of Incorporation or Registration
Gaiam Americas, Inc.	State of Colorado
Gaiam.com, Inc.	State of Colorado
Gaiam Direct, Inc.	State of Colorado
Gaiam Energy Tech, Inc.	State of Colorado
Gaiam International, Inc.	State of Colorado
Gaiam International II, Inc.	State of Colorado
Gaiam International III, Inc.	State of Colorado
Gaiam Media, Inc.	State of Colorado
Gaiam Shared Services, Inc.	State of Colorado
Gaiam Travel, Inc.	State of Colorado
GT Media, Inc.	State of Colorado
GT Direct, Inc.	State of Colorado
Gaiam West, Inc.	State of California
Real Goods Trading Corporation	State of California
Gaiam International C.V.	The Netherlands
Gaiam International B.V.	The Netherlands
Gaiam Limited	United Kingdom

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-37700) pertaining to the Gaiam, Inc. 1999 Long-Term Incentive Plan and the Gaiam, Inc. 1999 Employee Stock Purchase Plan, of our report dated March 15, 2006, with respect to the consolidated financial statements and schedule of Gaiam, Inc. included in the Annual Report on Form 10-K for the year ended December 31, 2005.

/s/ Ehrhardt Keefe Steiner & Hottman PC

Denver, Colorado
March 15, 2006

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-37700) pertaining to the Gaiam, Inc. 1999 Long-Term Incentive Plan and the Gaiam, Inc. 1999 Employee Stock Purchase Plan, of our report dated February 19, 2004, with respect to the consolidated financial statements and schedule of Gaiam, Inc. for the year ended December 31, 2003, included in the Annual Report (Form 10-K) for the year ended December 31, 2005.

/s/ Ernst & Young LLP

Denver, Colorado
March 15, 2006

CERTIFICATION

I, Jirka Rysavy, certify that:

1. I have reviewed this quarterly report on Form 10-K for the period ended December 31, 2005, 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)) 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 controls 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: March 13, 2006

/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-K for the period ended December 31, 2005, 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)) 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 controls 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: March 13, 2006

/s/ Janet Mathews
Janet Mathews
Chief Financial Officer

CERTIFICATION OF CEO PURSUANT TO

18 U.S.C. SECTION 1350

As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the report of Gaiam, Inc. (the "Company") on Form 10-K for the period ended December 31, 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, certifies, 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: March 13, 2006

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

CERTIFICATION OF CFO PURSUANT TO

18 U.S.C. SECTION 1350

As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the report of Gaiam, Inc. (the "Company") on Form 10-K for the period ended December 31, 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, certifies, 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: March 13, 2006

/s/ Janet Mathews
Janet Mathews
Chief Financial Officer
