

GAIAM INC  
Form DEF 14A  
May 01, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
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Gaiam, Inc.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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  - (3) Filing Party:
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**Gaiam, Inc.  
360 Interlocken Boulevard  
Broomfield, Colorado 80021**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON THURSDAY, JUNE 22, 2006**

To our shareholders:

The 2006 annual meeting of shareholders of Gaiam, Inc., a Colorado corporation, will be held on Thursday, June 22, 2006, at 9:30 a.m. at Hotel Boulderado, 2115 13th Street, Boulder, Colorado 80302, for the following purposes:

1. to elect directors of Gaiam to serve until the next annual meeting of shareholders or until their successors are duly elected and qualified;
2. to vote on a proposal to amend Gaiam's 1999 Long-Term Incentive Plan in order to increase the number of shares which may be issued pursuant to the plan; and
3. to transact such other business as may properly come before the annual meeting, or any adjournment(s) or postponement(s) thereof.

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Gaiam's board of directors has fixed the close of business on Tuesday, April 25, 2006, as the record date for determining the shareholders entitled to notice of, and to vote at, the annual meeting. A complete list of shareholders entitled to vote at the annual meeting will be available for inspection by any shareholder of Gaiam prior to the annual meeting, upon written request showing a proper purpose, during normal business hours at Gaiam's Broomfield, Colorado office. Only shareholders of record on the April 25, 2006 record date are entitled to notice of, and to vote at, the annual meeting and any adjournments or postponements thereof.

A copy of Gaiam's Annual Report for the year ended December 31, 2005, a proxy statement and a proxy card accompany this notice. These materials are first being sent to shareholders on or about May 31, 2006.

Shareholders are cordially invited to attend the annual meeting in person. To assure you are represented at the annual meeting, please complete and sign the enclosed proxy card and return it promptly.

By Order of the Board of Directors,

Lynn Powers, Secretary  
Broomfield, Colorado  
May 31, 2006

**YOUR VOTE IS IMPORTANT. WE URGE YOU TO DATE, SIGN AND PROMPTLY RETURN YOUR PROXY SO THAT YOUR SHARES MAY BE VOTED IN ACCORDANCE WITH YOUR WISHES.**

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**Gaiam, Inc.  
360 Interlocken Boulevard  
Broomfield, Colorado 80021**

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON JUNE 22, 2006**

This proxy statement and the accompanying proxy card are being furnished to the shareholders of Gaiam, Inc. in connection with the solicitation of proxies by and on behalf of the Board of Directors of Gaiam for use at its 2006 annual meeting of shareholders to be held on Thursday, June 22, 2006, starting at 9:30 a.m. at Hotel Boulderado, 2115 13th Street, Boulder, Colorado 80302, and at any adjournment(s) or postponement(s) thereof. This proxy statement and the accompanying proxy card are being mailed to shareholders on or about May 31, 2006.

**PURPOSE OF ANNUAL MEETING**

At the annual meeting, shareholders will be asked: (i) to elect directors of Gaiam to serve until the next annual meeting of shareholders or until their successors are duly elected and qualified; (ii) to vote on a proposal to amend Gaiam's 1999 Long-Term Incentive Plan in order to increase the number of shares which may be issued pursuant to the plan; and (iii) to transact such other business as may properly be brought before the annual meeting. Our Board recommends a vote **FOR** the election of the nominees for directors of Gaiam listed below, and the proposal listed herein.

**QUORUM AND VOTING RIGHTS**

The presence, in person or by proxy, of the holders of a majority of the outstanding votes eligible to be cast by our Class A and Class B Common Stock is necessary to constitute a quorum at the annual meeting. Only shareholders of record at the close of business on the record date, Tuesday, April 25, 2006, will be entitled to notice of, and to vote at, the annual meeting. As of the record date, there were 15,358,378 shares of Class A Common Stock, par value \$.0001, and 5,400,000 shares of Class B Common Stock, par value \$.0001, outstanding and entitled to vote. Holders of Class A Common Stock as of the record date are entitled to one vote for each share held and holders of Class B Common Stock as of the record date are entitled to ten votes for each share held. The holders of the Class A and Class B Common Stock will vote together. Once a quorum is present, the affirmative vote of a majority of the votes eligible to be cast on any subject matter shall be the act of the shareholders, other than with respect to the election of directors as described below.

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Mr. Jirka Rysavy, our Chairman and Chief Executive Officer, holds all 5,400,000 outstanding shares of Class B Common Stock and 1,664,000 shares of Class A Common Stock (or approximately 11% of the outstanding shares of Class A Common Stock). These shares are sufficient to constitute a quorum and to elect all Gaiam directors and approve the other proposal, and Mr. Rysavy has indicated that he plans to be present at the meeting and vote in favor of the directors nominated by our Board and the other proposal.

All shares of Common Stock represented by properly executed proxies will, unless the proxies have previously been revoked, be voted in accordance with the instructions indicated in the proxies. Abstentions and broker non-votes will have no effect on the result of the vote, although they will count towards the presence of a quorum. Any shareholder executing a proxy has the power to revoke the proxy at any time prior to its exercise. A proxy may be revoked prior to exercise by (a) filing with Gaiam a written revocation of the proxy, (b) appearing at the annual meeting and voting in person, or (c) submitting to Gaiam a duly executed proxy bearing a later date.

The cost of preparing, printing, assembling and mailing this Proxy Statement and other material furnished to shareholders in connection with the solicitation of proxies will be borne by Gaiam. In addition, officers, directors and regular employees of Gaiam may solicit proxies by written communication, telephone or telegraph. These persons will receive no special compensation for any solicitation activities.

**IT IS THE INTENTION OF THE AGENTS DESIGNATED IN THE ENCLOSED PROXY CARD TO VOTE FOR THE ELECTION OF ALL NOMINEES FOR DIRECTOR IDENTIFIED BELOW (UNLESS AUTHORITY IS WITHHELD BY THE SHAREHOLDER GRANTING THE PROXY) AND FOR PROPOSAL 2 BELOW. IF ANY NOMINEE BECOMES UNAVAILABLE TO SERVE FOR ANY REASON, THE PROXY WILL BE VOTED FOR A SUBSTITUTE NOMINEE OR NOMINEES TO BE SELECTED BY GAIAM'S BOARD, UNLESS THE SHAREHOLDER WITHHOLDS AUTHORITY TO VOTE FOR THE ELECTION OF DIRECTORS. JIRKA RYSAVY, WHO HOLDS APPROXIMATELY 11% OF THE OUTSTANDING SHARES OF CLASS A COMMON STOCK AND 100% OF THE OUTSTANDING SHARES OF CLASS B COMMON STOCK, HAS INFORMED GAIAM THAT HE INTENDS TO VOTE HIS SHARES IN FAVOR OF THE NOMINEES AND PROPOSAL SET FORTH IN THIS PROXY STATEMENT.**

#### **PROPOSAL 1 ELECTION OF DIRECTORS**

##### **Nominees for Election as Directors**

The Board proposes that Jirka Rysavy, Lynn Powers, James Argyropoulos, Barnet M. Feinblum, David Golden, Barbara Mowry, Ted Nark and Paul H. Ray be elected as directors of Gaiam, to hold office until the next annual meeting of shareholders or until their successors are duly elected and qualified. Unless contrary instructions are given, the proxies will be voted for these nominees. Each nominee has agreed to serve if elected, and management has no reason to believe that any of the nominees will be unavailable for service. If for any unforeseen reason any nominee should decline or be unable to serve, the proxies will be voted to fill any vacancy so arising in accordance with the discretionary authority of the persons named in the proxy, unless contrary instructions are given.

The names of the nominees, their ages as of December 31, 2005, the years in which they began serving as directors if applicable, and their positions are set forth below. Each of the nominees, except David Golden, is currently serving as a director of Gaiam.

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JIRKA RYSAVY age 51 Founder, Chairman and Chief Executive Officer of Gaiam. He has been Chairman since Gaiam's inception and became our full-time Chief Executive Officer in December 1998. In 1986, Mr. Rysavy founded Corporate Express, Inc., which, under his leadership, grew to become a Fortune 500 company supplying office and computer products and services. He was its

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Chairman and Chief Executive Officer until September 1998. Mr. Rysavy also founded and served as Chairman and Chief Executive Officer of Crystal Market, a health foods market, which was sold in 1987 to become the first Wild Oats Markets store.

**LYNN POWERS** age 56 President, Director and Chief Executive Officer of North American operations of Gaiam. Ms. Powers has been President and a Director since February 1996. From February 1996 until September 2001, she was Chief Operating Officer, when she was promoted to Chief Executive Officer of North American operations. From 1992 to 1996, she was Chief Executive Officer of La Scelta, an importer of natural fiber clothing products. Before that, Ms. Powers was Senior Vice President Marketing/Strategic Development and Vice President Merchandising of Miller's Outpost, a specialty retailer.

**JAMES ARGYROPOULOS** age 62 Director since May 2002. Mr. Argyropoulos has been primarily engaged as a private investor over the last fifteen years. Mr. Argyropoulos founded The Walking Company, a lifestyle specialty retailer, and served as its Chairman from 1992 until 2004. Previously Mr. Argyropoulos served as Chairman and Chief Executive Officer of The Cherokee Group Inc., a shoe manufacturing and apparel business he founded in 1972.

**BARNET M. FEINBLUM** age 58 Director since October 1999. Mr. Feinblum is the President and Chief Executive Officer of Organic Vintners, a marketer of organic wines. Mr. Feinblum was the President, Chief Executive Officer and Director of Horizon Organic Dairy from May 1995 to January 2000. From July 1993 through March 1995, Mr. Feinblum was the President of Natural Venture Partners, a private investment company. From August 1976 until August 1993, Mr. Feinblum held various positions at Celestial Seasonings, Inc., including President, Chief Executive Officer, and Chairman of the Board. Mr. Feinblum is also a director of Seventh Generation, Inc.

**DAVID GOLDEN** age 47 Mr. Golden is Executive Vice President and Chief Financial Officer of Revolution. From February 1988 to March 2006, Mr. Golden was with JP Morgan and a predecessor firm, Hambrecht & Quist, where he was director of mergers and acquisitions and, most recently, director of JP Morgan global investment banking for media, telecommunication and technology as well as a member of the management committee.

**BARBARA MOWRY** age 58 Director since October 1999. Since 2003, Ms. Mowry has been Chief Executive Officer of Silver Creek Systems, a provider of enterprise data usability software. From 1997 until February 2001, Ms. Mowry was the President and Chief Executive Officer of Requisite Technology, a business-to-business e-commerce company specializing in the creation and management of electronic content and catalogs. Prior to joining Requisite Technology, Ms. Mowry was an officer of Telecommunications, Inc. (cable television) from 1995 to 1997; and UAL, Inc. (airline) from 1983 to 1990. In 1990, Ms. Mowry founded, and until 1995 served as Chief Executive Officer of, The Mowry Company, a relationship marketing firm focusing on the development of long-term customer relationships for businesses.

**TED NARK** age 47 Director since June 2005. Mr. Nark served as Chief Executive Officer of White Cap Construction Supply, a distributor of specialty hardware, tools and materials to construction contractors, from April 2002 through January 2006. From 1998 until 2002, Mr. Nark was the Chief Executive Officer and Manager Director of Corporate Express Australia, a publicly traded business to business office product distribution company in Australia. From 1992 until 1998, Mr. Nark worked for Corporate Express, Inc., as Northwest Division President from 1992 to 1995, and then as Group President from 1995 to 1998. Mr. Nark also serves on the Board of Directors of FTD Group, Inc. and Leslie's Poolmart, Inc.



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PAUL H. RAY age 66 Director since October 1999. Since 2000, Mr. Ray has been the Chief Executive Officer of Integral Partnerships LLC, a consulting firm specializing in Cultural Creative topics. From 1986 until 2000, he was Executive Vice President of American LIVES, Inc., a market research and opinion-polling firm. Prior to joining American LIVES, Mr. Ray was Chief of Policy Research on Energy Conservation at the Department of Energy, Mines and Resources of the Government of Canada from 1981

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to 1983. From 1973 to 1981, Mr. Ray was Associate Professor of Urban Planning at the University of Michigan. He is the author of *The Integral Culture Survey*, which first identified the Cultural Creatives subculture.

Each director serves for a one-year term.

Directors will be elected by a plurality of the votes cast. If no instructions are indicated on a proxy card, the shares will be voted **FOR** the election of these nominees for director. Because director nominees must receive a plurality of the votes cast at the annual meeting, a vote withheld from a particular nominee or from all nominees will not affect the election of that nominee.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR**

**THE NOMINEES OF THE BOARD**

**PROPOSAL 2 AMENDMENT OF GAIAM, INC. 1999 LONG-TERM INCENTIVE PLAN**

**General**

The Board of Directors recommends that the shareholders approve an amendment to Gaiam's 1999 Long-Term Incentive Plan to increase the number of shares of Class A Common Stock permitted to be granted. The amendment would provide that a maximum of 3,000,000 shares of Class A Common Stock be authorized for issuance under the Incentive Plan. Currently a maximum of 2,100,000 shares of Class A Common Stock is authorized for issuance under the Incentive Plan. The following is a summary of the material features of the Incentive Plan, which is attached as Exhibit A.

**Summary Of The Incentive Plan**

The Incentive Plan was initially approved by shareholders on October 24, 1999. In 2002, the shareholders approved an increase in the number of shares of Class A Common Stock authorized for issuance from 1,600,000 to 2,100,000.

The purpose of the Incentive Plan is to advance the interests of Gaiam and its shareholders by providing incentives to certain employees of Gaiam and other key individuals who perform services for Gaiam, including those who contribute significantly to the strategic and long-term performance objectives and growth of Gaiam. The Incentive Plan is administered by the Board of Directors or, if the Board of Directors so designates, by a committee of the Board of Directors. Gaiam's Board of Directors has designated the Board's Compensation Committee to administer the Incentive Plan. The Committee may delegate administrative responsibilities if so permitted by applicable law, other than with respect to executive officers who are subject to Section 16 of the Securities Exchange Act of 1934. The Incentive Plan provides for the granting of several types of awards, including stock options, stock appreciation rights or SARs, restricted stock, performance grants and other awards deemed by the Committee to be consistent with the purposes of the Incentive Plan. Awards may be granted alone, or in conjunction with one or

more other awards, as determined by the Committee.

As amended, a maximum of 3,000,000 shares of Class A Common Stock will be authorized to be issued under the Incentive Plan in connection with the grant of awards, subject to adjustments described below. Currently 2,100,000 shares of Class A Common Stock are authorized to be issued under the Incentive Plan. Since 1999, 832,944 shares have been issued upon exercise of options and awards. At April 28, 2006, 1,125,454 shares were reserved for issuance upon exercise of outstanding options, representing approximately 5.4% of Gaiam's outstanding shares. Class A Common Stock issued under the Incentive Plan may be either newly issued shares, treasury shares, reacquired shares or any combination thereof. If Class A Common Stock issued as restricted stock or otherwise subject to repurchase or forfeiture rights is reacquired by Gaiam pursuant to such rights, or if any award is canceled, terminates or expires unexercised, the Class A Common Stock which would otherwise have been issuable pursuant to such awards will be available for issuance under new awards.

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The Committee has exclusive discretion to select which employees and other key individuals performing services for Gaiam to whom awards will be granted; to determine the type, size and terms of each award; to modify within certain limits the terms of any award; to determine the time when awards will be granted; to establish performance objectives; to prescribe the form of documents representing awards under the Incentive Plan and to make all other determinations which it deems necessary or desirable in the interpretation and administration of the Incentive Plan. The Committee has the authority to administer and interpret the Incentive Plan, and its decisions are final, conclusive and binding. Gaiam anticipates that approximately 400 employees will be eligible to participate in the Incentive Plan.

#### **Awards under the Incentive Plan**

**Stock Options.** A stock option, which may be a nonqualified or an incentive stock option, is the right to purchase a specified number of shares of Class A Common Stock at a price fixed by the Committee. The option exercise price for nonqualified options may be equal to or greater than the fair market value of the Class A Common Stock. In the case of incentive stock options, the option exercise price may not be less than the fair market value of the underlying shares of Class A Common Stock on the date of grant and, with respect to incentive stock options granted to employees of Gaiam or any affiliate who own more than 10% of the voting power of all classes of the stock of Gaiam or any affiliate, the option exercise price may not be less than 110% of fair market value on the date of the grant.

Stock options will generally expire not later than ten years or, in the case of incentive stock options granted to employees who own more than 10% of Gaiam's stock, five years, after the date on which they are granted. Stock options become exercisable at such times and in such installments as the Committee determines. Payment of the option exercise price must be made in full at the time of exercise in cash, by tendering to Gaiam shares of Class A Common Stock, by a combination thereof or by any other means that the Committee deems appropriate (including, without limitation, the surrender of rights in one or more outstanding awards).

**Other Awards.** The Incentive Plan also authorizes several other types of awards. These include stock appreciation rights (rights to receive, without payment to Gaiam, cash, Class A Common Stock, other property or any combination thereof, based on the increase in the value of the number of shares of Class A Common Stock specified in the award), restricted stock (an award of a number of shares of Class A Common Stock that are subject to certain restrictions, such as a requirement that the shares shall be forfeited if the holder's employment or performance of services for Gaiam terminates), and performance grants (cash, shares of Class A Common Stock, other consideration such as other Gaiam securities or property or a combination thereof that is paid based on the performance of the holder, Gaiam, one or more of Gaiam's subsidiaries, divisions or units, or any combination).

#### **Additional Information**

Under the Incentive Plan, if any change in the outstanding shares of Class A Common Stock occurs by reason of a stock split, stock dividend, combination, subdivision or exchange of shares, recapitalization, merger, consolidation, reorganization or other extraordinary or unusual event, the Committee may direct appropriate changes in the terms of any award or the number of shares of Class A Common Stock available for awards. Such changes may include the number or kind of securities that may be issued, the number or kind of securities subject to, or the option exercise price under, any outstanding stock option, the number or kind of securities which have been awarded as restricted stock or any repurchase option price relating thereto, the number or value of performance grants, the number or value of any other award, or any measure of performance of any award.

The Incentive Plan permits the Committee to determine whether it is advisable for Gaiam or any affiliate to provide financing in connection with the exercise of an award and the payment of related taxes, or to assist in obtaining financing from a bank or other third party in this regard. Such assistance may take any form and be on such terms as the Committee considers appropriate including, without limitation, a direct loan, a guaranty of the obligation to a third party or the maintenance by Gaiam or an affiliate of deposits with a bank or third party.

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The Committee may permit payment taxes required to be withheld with respect to an award in any appropriate manner (including, without limitation, by the surrender to Gaiam of shares of Class A Common Stock owned by such person or that would otherwise be distributed, or have been distributed, as the case may be, pursuant to such award).

Generally, no awards under the Incentive Plan may be assigned or transferred in whole or in part, either directly or by operation of law or otherwise (except in the event of a holder's death), including, without limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner, although the Committee approve transfers of awards to employees and, without payment of consideration, to immediate family members and related parties.

The expenses of the Incentive Plan are borne by Gaiam. The Incentive Plan terminates upon the earlier of the adoption of a resolution by the Board terminating the Incentive Plan and June 1, 2009, unless extended for up to an additional five years for the grant of awards other than incentive stock options by action of the Board of Directors of Gaiam. The Board of Directors may amend the Incentive Plan at any time and from time to time for any purpose consistent with the goals of the Incentive Plan. However, if failure to obtain shareholder approval would adversely affect compliance of the Incentive Plan with Rule 16b-3 promulgated under the Exchange Act (or other applicable law or regulation) no amendment shall be effective unless and until approved by shareholders.

#### **Federal Income Tax Consequences**



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The following is a summary of the principal current federal income tax consequences of transactions under the Incentive Plan. This summary does not describe all federal tax consequences under the Incentive Plan, nor does it describe state, local or foreign tax consequences.

**Incentive Stock Options.** No taxable income is realized by the employee upon the grant or exercise of an incentive stock option. However, the exercise of an incentive stock option may result in alternative minimum tax liability for the employee. If the employee does not dispose of the shares received upon exercise of an incentive stock option within two years from the date of grant (or within one year after the transfer of such shares to the employee), then upon sale of such shares, any amount realized in excess of the exercise price will be taxed to the employee as a long-term capital gain and any loss sustained will be a long-term capital loss. In that case, no deduction will be allowed to Gaiam for federal income tax purposes.

If the shares of Class A Common Stock acquired upon the exercise of an incentive stock option are disposed of prior to the expiration of the two-year and one-year holding periods described above, generally the employee will realize ordinary income in the year of disposition. The ordinary income will equal the amount of the excess (if any) of the fair market value of the shares at exercise (or, if less, the amount realized on an arms -length sale of such shares) over the exercise price thereof, and Gaiam will be entitled to deduct such amount. Any further gain realized will be taxed as short-term or long-term capital gain and will not result in any deduction by Gaiam. Special rules may apply where all or a portion of the exercise price of the incentive stock option is paid by tendering shares of Class A Common Stock.

If an incentive stock option is exercised at a time when it does not qualify for the tax treatment described above, the option is treated as a nonqualified stock option. Generally, an incentive stock option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (one year following termination of employment by reason of permanent and total disability), except in certain cases where the incentive stock option is exercised after the death of an employee.

**Nonqualified Options.** No income is realized by the employee at the time a nonqualified stock option is granted under the Incentive Plan. Generally, at exercise, ordinary income is realized by the employee in an amount equal to the difference between the option price and the fair market value of the shares on the date of exercise, and Gaiam receives a tax deduction for the same amount. At disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss, depending on how long the shares have been held.

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**Other Awards.** The grant of a stock appreciation right does not result in income for the employee or in a deduction for Gaiam. Upon the exercise of an SAR, generally the employee recognizes ordinary income and Gaiam is entitled to a deduction measured by the fair market value of any amounts received by the employee.

An employee receiving restricted stock generally will be subject to tax at ordinary income rates on the fair market value of the stock at the time the stock is either transferable or is no longer subject to forfeiture, less any amount paid for such stock. Gaiam is entitled to a corresponding tax deduction for the amount of ordinary income recognized by the employee. However, an employee who so elects under Section 83(b) of the Internal Revenue Code within 30 days of the date of issuance of the restricted stock will realize ordinary income on the date of issuance equal to the fair market value of the shares of restricted stock at that time (measured as if the shares were unrestricted and could be sold immediately), less any amount paid. If the shares subject to such election are forfeited, the employee will not be entitled to any deduction, refund or loss for tax purposes with respect to the forfeited shares. Upon sale of the shares after the forfeiture period has expired, the appreciation or depreciation since the shares became transferable or free from risk of forfeiture (or, if a Section 83(b) election was made, since the shares were issued) will be treated as long-term or short-term capital gain or loss. The holding period to determine whether the employee has long-term or short-term capital gain or loss begins when the restriction period expires (or upon earlier issuance of the shares, if the employee elected immediate recognition of income under Section 83(b)).

An employee receiving a performance award will generally be subject to tax at ordinary income rates on any cash received and on the fair market value of any Class A Common Stock issued under the award, and Gaiam will generally be entitled to a deduction equal to the amount of ordinary income realized by the employee. The capital gain or loss holding period for any Class A Common Stock distributed under a performance award will begin when the employee recognizes ordinary income relating to the award.

**Plan Benefits.** It is not possible to determine awards that will be made under the Incentive Plan. The amendment would not have resulted in any changes in the number of awards granted to date under the Incentive Plan. The amendment will increase the number of shares of Class A Common Stock available for awards under the Incentive Plan in the future.

At the meeting, the amendment to the Incentive Plan requires the affirmative vote of a majority of the total votes cast on the proposal. Jirka Rysavy, who holds approximately 11% of the outstanding shares of Class A Common Stock and 100% of the outstanding shares of Class B Common Stock, has informed Gaiam that he intends to vote his shares in favor of the proposal to amend the Incentive Plan.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR**

**THE PROPOSAL TO APPROVE THE AMENDMENT TO THE INCENTIVE PLAN**

**COMMITTEES AND MEETINGS OF THE BOARD OF DIRECTORS**

The Gaiam Board of Directors meets regularly during the year. The Board of Directors has determined that each of Messrs. Argyropoulos, Feinblum, Nark and Ray and Ms. Mowry are independent as defined by the listing standards of the NASDAQ Stock Market.

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In 2005, our Board held ten meetings, including regularly scheduled and special meetings. Each director who served as director attended over 75% of the aggregate number of meetings of our Board and of the committees of our Board on which the director served during 2005; except for Messrs. Ray and Nark, who attended 67% of the Board and committee meetings during 2005.

The Board expects a majority of its directors to attend the annual meeting, and in 2005, five of the six directors attended the annual meeting. Gaiam's policy on attendance by directors at the annual meeting encourages our directors to attend the annual meeting unless they have a scheduling conflict.

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The Board of Directors generally has four regularly scheduled meetings during the year, and our five independent directors generally schedule their executive sessions (without management present) adjacent to a regularly scheduled Board meeting. Our Board has standing audit and compensation committees. We have adopted written charters for both committees.

**Audit Committee.** During 2005, the Audit Committee consisted of Messrs. Feinblum and Argyropoulos and Ms. Mowry, and each member of the committee is independent within the meaning of rules of NASDAQ Stock Market. During 2005, Barnet Feinblum served as chairperson of the Audit Committee and was an audit committee financial expert, as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002. The Audit Committee is responsible for the appointment, compensation and oversight of Gaiam's auditor and for approval of any non-audit services provided by the auditor. The Audit Committee also oversees (a) management's maintenance of the reliability and integrity of our accounting policies and financial reporting and disclosure practices; (b) management's establishment and maintenance of processes to assure that an adequate system of internal control is functioning; and (c) management's establishment and maintenance of processes to assure our compliance with all laws, regulations and company policies relating to financial reporting. The Audit Committee held six meetings during 2005.

**Compensation Committee.** The Compensation Committee consisted of Messrs. Feinblum, Argyropoulos and Ray and Ms. Mowry during 2005. During 2005, Barbara Mowry served as chairperson of the Compensation Committee. The Compensation Committee establishes compensation amounts and policies applicable to our executive officers, establishes salaries, bonuses and other compensation plans and matters for our executive officers and administers Gaiam's stock option plans and employee stock purchase plan. The Compensation Committee held five meetings during 2005.

We do not have a nominating committee, and nominations for directors are made by our full Board. Gaiam is exempt from NASDAQ Stock Market rules with respect to nominating committees because Gaiam may be deemed a controlled company on the basis of Mr. Rysavy's control of more than 50% of Gaiam's voting power, and in light of Mr. Rysavy's control, our Board does not believe a nominating committee would serve a purpose. Our bylaws set forth certain procedures that are required to be followed by shareholders in nominating persons for election to our Board. Generally, written notice of a proposed nomination must be received by Gaiam's Corporate Secretary not later than the 45th day nor earlier than the 70th day prior to the anniversary of the mailing of the preceding year's proxy materials.

#### **Directors Compensation**

Directors who are not employees of Gaiam or its affiliates are paid a fee of \$3,000 for each meeting of our Board that they attend, and a fee of \$1,000 for each telephonic meeting attended. In addition, non-employee directors are paid a fee of \$500 for attendance at each committee meeting and \$250 for each telephonic meeting attended. Non-employee chairpersons of each standing committee receive an annual fee of \$2,000. All directors elected to receive their 2005 compensation in Gaiam common stock, except Mr. Ray and Mr. Nark, who elected to receive cash compensation.

#### **EXECUTIVE OFFICERS OF GAIAM**

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The executive officers of Gaiam, Inc., their positions and their respective ages at December 31, 2005 were as follows:

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Name	Age	Position
Jirka Rysavy	51	Chairman of the Board and Chief Executive Officer
Lynn Powers	56	President, Director, Secretary and CEO of North American Operations
Janet Mathews	50	Vice President and Chief Financial Officer
Lou Weiss	37	President, Gaiam Direct

Executive officers are elected annually by Gaiam's Board of Directors. Mr. Rysavy, Ms. Powers and Ms. Mathews have been employed by Gaiam for more than the past five years.

Mr. Weiss joined Gaiam in September 2005 following our acquisition of assets from Good Times Entertainment, where he had been Senior Vice President. Previously, he held a series of executive roles at new media and Internet companies, including Co-Founder and President of Blue Dolphin Group, an Internet-based marketer of subscription services; and Vice President and General Manager of AirMedia, the world's first wireless Internet broadcast network. From 1991 to 1995, Mr. Weiss worked at Sony Corp. of America, where he began his career in the Corporate Strategy division and was promoted to National Sales and Marketing Manager for Sony's U.S. Wireless Telecomm business. He was graduated magna cum laude from the Wharton School of Business at the University of Pennsylvania with a B.S. in Economics.

### BENEFICIAL OWNERSHIP OF SHARES

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of April 28, 2006, except as noted, for (i) each person (or group of affiliated persons) who, insofar as Gaiam has been able to ascertain, beneficially owned more than 5% of the outstanding shares of Class A or Class B Common Stock of Gaiam, (ii) each director and nominee for director, (iii) each executive officer named in the table above, and (iv) all current directors and executive officers as a group.

Title of Class of Common Stock	Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership(2)	Percent of Class	
Class A	Jirka Rysavy	(3)	7,064,000	34.03%
	Prentice Capital Management, LP	(4)	3,379,814	22.01%
	Revolution Living LLC	(5)	2,500,000	16.28%
	Columbia Wanger Asset Management, L.P.	(6)	1,212,000	7.89%
	Lynn Powers	(7)	383,000	2.45%
	James Argyropoulos	(7)(8)	237,491	1.55%
	Janet Mathews	(7)	42,200	*
	Barnet Feinblum	(7)(9)	31,717	*
	Barbara Mowry	(7)	22,833	*
	Paul Ray	(7)	16,121	*