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

Form 10-Q

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

For the quarterly period ended March 31, 2004

OR

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

Commission File Number 0-27517

GAIAM, INC.

(Exact name of registrant as specified in its charter)

COLORADO
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

YES NO

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

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

Class	Shares outstanding as of April 30, 2004
Class A Common Stock (\$.0001 par value)	9,296,477
Class B Common Stock (\$.0001 par value)	5,400,000

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FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements that involve risks and uncertainties. When used in this discussion, the words “anticipate,” “believe,” “plan,” “estimate,” “expect,” “strive,” “future,” “intend” and similar expressions as they relate to Gaiam or its management are intended to identify such forward-looking statements. Gaiam’s actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors set forth under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Market Risk” and elsewhere in this report. Risks and uncertainties that could cause actual results to differ include, without limitation, general economic conditions, competition, loss of key personnel, pricing, brand reputation, acquisitions, 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, 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.

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

	March 31, 2004 (Unaudited)	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,994	\$ 8,384
Accounts receivable, net	11,950	17,818
Income tax and other receivables	2,306	2,091
Inventory, less allowances	16,871	16,629
Deferred advertising costs	903	1,649
Other current assets	1,248	1,280
Total current assets	44,272	47,851
Property and equipment, net	9,810	10,314
Investments	7,865	7,865
Capitalized production costs, net	5,852	6,094
Media library, net	5,927	6,084
Goodwill and other intangibles	9,608	9,509
Deferred tax assets	3,380	3,488
Other assets	546	655
Total assets	\$ 87,260	\$ 91,860
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	\$ 8,174	\$ 12,459
Accrued liabilities	4,149	4,904
Income taxes payable	1,104	902
Capital lease obligations, current	35	55
Total current liabilities	13,462	18,320

Deferred tax liabilities	14,293	19,035
Total liabilities		
Minority interest	3,589	3,320
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 9,216,027 and 9,203,056 shares issued and outstanding at March 31, 2004 and December 31, 2003, respectively	1	1
Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at March 31, 2004 and December 31, 2003, respectively	1	1
Additional paid-in capital	53,907	53,831
Deferred compensation	(54)	(72)
Accumulated other comprehensive income	693	525
Retained earnings	14,870	15,199
Total stockholders' equity	69,418	69,485
Total liabilities and stockholders' equity	\$ 87,260	\$ 91,860

See accompanying notes to the condensed consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2004	2003
Net revenue	\$ 23,775	\$ 22,972
Cost of goods sold	11,099	10,648
Gross profit	12,676	12,324
Expenses:		
Selling and operating	10,957	10,552
Corporate, general and administration	2,048	2,269
Total expenses	13,005	12,821
Income (loss) from operations	(329)	(497)
Other income	24	11
Interest income	32	15
Total other income	56	26
Income (loss) before income taxes and minority interest	(273)	(471)
Provision for income tax (benefit) expense	(116)	(198)
Minority interest in net (income) loss of consolidated subsidiaries, net of tax	(172)	(80)
Net income (loss)	\$ (329)	\$ (353)
Net income (loss) per share:		
Basic	\$ (0.02)	\$ (0.02)
Diluted	\$ (0.02)	\$ (0.02)
Shares used in computing net income (loss) per share:		
Basic	14,615	14,579
Diluted	14,615	14,579

See accompanying notes to the condensed consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2004	2003
Operating activities		
Net income (loss)	\$ (329)	\$ (353)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	749	643
Amortization	174	112
Stock compensation	18	18
Minority interest in consolidated subsidiaries	172	80
Deferred tax expense	119	—
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	5,716	8,040
Inventory	(184)	(270)
Deferred advertising costs	746	754
Capitalized production costs	242	(657)
Other current assets	35	(465)
Other assets	106	(266)
Accounts payable	(4,495)	(3,596)
Accrued liabilities	(533)	(1,300)
Income taxes payable	182	(1,233)
Net cash provided by operating activities	<u>2,718</u>	<u>1,507</u>
Investing activities		
Purchase of property, equipment and media rights	(206)	(797)
Payments for acquisitions, net of cash acquired	—	(3,787)
Net cash used in investing activities	<u>(206)</u>	<u>(4,584)</u>
Financing activities		
Principal payments on capital leases	(20)	(84)
Proceeds from issuance of common stock	8	87
Net cash (used in) provided by financing activities	<u>(12)</u>	<u>3</u>
Effects of exchange rates on cash and cash equivalents	110	—
Net change in cash and cash equivalents	2,610	(3,074)
Cash and cash equivalents at beginning of period	8,384	11,422
Cash and cash equivalents at end of period	<u>\$ 10,994</u>	<u>\$ 8,348</u>
Supplemental cash flow information		
Interest paid	\$ —	\$ 19
Common stock issued for acquisitions	—	348
Income taxes paid	—	1,033

See accompanying notes to the condensed consolidated financial statements.

Gaiam, Inc.
Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)
March 31, 2004

1. Interim Condensed Consolidated Financial Statements

Organization and Nature of Operations

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

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.

Preparation of Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements included herein have been prepared by the management of Gaiam pursuant to the rules and regulations of the United States Securities and Exchange Commission, and, in the opinion of management, contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly Gaiam's consolidated financial position as of March 31, 2004, the interim results of operations for the three months ended March 31, 2004

and 2003, and cash flows for the three months ended March 31, 2004 and 2003. These interim statements have not been audited. The balance sheet as of December 31, 2003 was derived from Gaiaam's audited consolidated financial statements included in Gaiaam's annual report on Form 10-K.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Accounting policies followed by Gaiaam are described in Note 1 to the audited financial statements for the fiscal year ended December 31, 2003 included in Gaiaam's annual report on Form 10-K. The consolidated financial statements contained herein should be read in conjunction with the audited financial statements, including the notes thereto, for the year ended December 31, 2003.

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

Use of Estimates

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

Reclassifications

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

Adoption of Accounting Standards

In December 2003, the Financial Accounting Standards Board ("FASB") issued a revised FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," ("FIN 46R"). FIN 46R modifies FIN 46 to include (1) a deferral of the effective date of the provisions related to certain variable interests, (2) additional scope exceptions for certain other variable interests, (3) clarifications on the impact of troubled debt restructurings, and (4) additional guidance on what constitutes a variable interest. Adoption of FIN 46R is required in the financial statements of public entities that have interests in special purposes entities ("SPEs") for periods ending after December 15, 2003. Adoption by public entities that have interests in all other types of variable interest entities ("VIEs") is required in financial statements for periods ending after March 15, 2004. Gaiaam believes that there are no entities qualifying as SPEs or VIEs, therefore, the adoption of FIN 46R has not had any effect on Gaiaam's financial position, results of operations or cash flows.

Stock-Based Compensation

Gaiaam 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 Gaiaam'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 Gaiaam'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. Had compensation cost for Gaiaam's stock-based compensation plan been determined under the fair value methodology under SFAS No. 123, Gaiaam's net income (loss) and income (loss) per share would have been as follows (in thousands, except per share data):

For the Three Months Ended March 31,	2004	2003
Net income (loss) as reported	\$ (329)	\$ (353)
Add: Stock-based compensation expense included in reported net income (loss), net of related tax effects	18	18
Deduct: Total stock-based compensation expenses determined under fair value based method for all awards, net of related tax effects	(165)	(196)
Pro forma	\$ (476)	\$ (531)
Net income (loss) per common share		
As reported	\$ (0.02)	\$ (0.02)
Pro forma	\$ (0.03)	\$ (0.04)
Fully diluted net income (loss) per common share		
As reported	\$ (0.02)	\$ (0.02)

2. Stockholders' Equity

During the first quarter of 2004, Gaiam issued a total of 11,251 shares of Class A common stock to Gaiam's independent directors, in lieu of cash compensation, for services rendered in 2003. In addition, for the three months ended March 31, 2004, Gaiam issued 1,720 shares of Class A common stock upon exercise of options granted under Gaiam's 1999 Long-Term Incentive Plan.

3. Comprehensive Income (Loss)

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

For the Three Months Ended March 31,	2004	2003
Net income (loss)	\$ (329)	\$ (353)
Foreign currency translation adjustment, net	168	—
Comprehensive income (loss), net of taxes	\$ (161)	\$ (353)

4. 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 are excluded from the computation of diluted earnings per share for the three months ended March 31, 2004 and 2003 because their effect is antidilutive.

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

For the Three Months Ended March 31,	2004	2003
Numerator for basic and diluted earnings (loss) per share	\$ (329)	\$ (353)
Denominator:		
Weighted average shares for basic earnings (loss) per share	14,615	14,579
Effect of dilutive securities:		
Weighted average of common stock, stock options, and warrants	—	—
Denominators for diluted earnings (loss) per share	14,615	14,579
Net income (loss) per share—basic	\$ (0.02)	\$ (0.02)
Net income (loss) per share—diluted	\$ (0.02)	\$ (0.02)

5. Segment Information

Gaiam manages its business and aggregates its operational and financial information in accordance with two reportable segments. The direct to consumer segment contains 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):

For the Three Months Ended March 31,	2004	2003
Net revenue:		
Direct to consumer	\$ 12,138	\$ 11,017
Business	11,637	11,955
Consolidated net revenue	23,775	\$ 22,972
Contribution margin:		
Direct to consumer	(24)	4
Business	(305)	(501)
Consolidated contribution margin (loss)	(329)	(497)

Reconciliation of contribution margin (loss) to net income (loss):	56	26
Income tax (benefit) expense	(116)	(198)
Minority interest in net (income) loss of consolidated subsidiaries, net of tax	(172)	(80)
Net income (loss)	<u>\$ (329)</u>	<u>\$ (353)</u>

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

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

Overview and Outlook

Gaiam is a multi-channel lifestyle company providing information, goods and services to customers who value personal development, healthy living, ecological lifestyles and responsible media. Gaiam was incorporated in Boulder, Colorado in 1988 to support "Conscious Commerce," the practice of making purchasing decisions based on lifestyle and personal values. In 1995, Gaiam began to expand nationally. In 1996, Gaiam made a large investment in infrastructure and operating systems to support rapid growth. From 1997 to 2003, Gaiam's revenues increased from \$19.9 million to \$102 million, representing a compound annual growth rate of 31.3%.

Gaiam's revenues declined 8.4% to \$102 million in 2003, as compared to \$111.4 million in 2002. The decline in revenues was primarily attributable to a decline of 34%, or \$19 million, in sales to retailers. These declines took place in our business segment, which has had higher operating contributions in prior years than our direct to consumer segment. With a larger portion of Gaiam's revenue contributed by operations with lower gross margins, the overall gross margin declined to 52%. Gaiam used 2003 as a transition year in order to make adjustments to our business strategy by doubling our sales force, adding new product categories, launching sales to additional retail chains within the business segment, and consolidating our operations and reducing expenses in order to focus on profitability in all segments in the future. Although Gaiam reported a net loss of approximately \$972 thousand in 2003, its first net loss since becoming a public company, Gaiam generated \$3.7 million in cash provided by operations, compared to \$1 million cash provided by operations in 2002, when Gaiam had net income of \$5.4 million.

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Gaiam has increased its focus on its media and national retailer channels, which strategically provides increased branding opportunities, higher operating contribution and greater mainstream penetration. In 2003, our business segment was 51% of total revenues, up from 13% in 1998. In 2004, Gaiam is focusing on selling directly to retailers, both domestically and abroad, through the "store-within-store" concept, and is concentrating on building this segment through a combination of new media releases and new product opportunities in soft goods and spa products, along with an expansion in mass market retailers and bookstores, and new launches into the grocery and the professional markets.

The direct to consumer segment continues to be an integral part of Gaiam's outreach. This segment accounted for 49%, or approximately \$50.5 million, of Gaiam's revenues during 2003. Through its diverse media reach, the direct to consumer segment provides branding, a sounding board for new product testing, promotional opportunities and customer feedback on Gaiam's and the LOHAS (Lifestyles of Health and Sustainability) industry's focus and future.

The negative internal growth experienced during 2003 has subsided, and, for the first quarter of 2004, Gaiam generated positive internal growth of approximately 5%. Revenues in Gaiam's direct to consumer segment increased to 51% of overall revenue and posted an internal growth rate of 12.8% for the first quarter of 2004. The business segment posted a modest decline in revenues of 2.7% for the first quarter, as compared to negative internal growth of 32.6% in the first quarter of 2003. As this segment's revenues are heavily weighted in the second half of the calendar year, it is anticipated that this segment will return to positive internal growth in that timeframe. As Gaiam's revenues will continue to be heavily weighted to the second half of the calendar year, the majority of our earnings will continue to be generated during the third and fourth quarters. As expected, Gaiam posted a net loss in the first quarter of 2004 of \$329 thousand, a 6.8% improvement over the same period in 2003. Additionally, Gaiam generated \$2.7 million in cash provided by operating activities for the three months ended March 31, 2004, as compared to \$1.5 million for the same period in 2003.

Results of Operations

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

For the Three Months Ended March 31,	2004	2003
Net revenue	100.0%	100.0%
Cost of goods sold	46.7%	46.4%
Gross profit	53.3%	53.6%
Expenses:		
Selling and operating	46.1%	45.9%
Corporate, general and administrative	8.6%	9.9%
Total expenses	54.7%	55.8%
Income (loss) from operations	-1.4%	-2.2%
Other income (expense), net	0.2%	0.1%
Income (loss) before income taxes and minority interest	-1.2%	-2.1%
Income tax (benefit) expense	-0.5%	-0.9%
Minority interest in net (income) loss of consolidated subsidiaries,		

Three months ended March 31, 2004 versus March 31, 2003

Revenues of \$23.8 million for the three months ended March 31, 2004 increased 3.5% from \$23 million for the three months ended March 31, 2003. Gaiam's increase in revenues was due to revenue increases in the direct to consumer segment of \$1.1 million, or 10.2% for the quarter. Business segment revenues were \$11.6 million for the three months ended March 31, 2004, compared to \$11.9 million for the same period in

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2003. While the business segment experienced negative growth of 2.7% in 2004, this represents a significant improvement over 2003's results, when negative growth in this segment was 32.6%.

Gross profit, which consists of revenues less cost of sales (primarily merchandise acquisition costs and in-bound freight), increased to \$12.7 million for the first quarter of 2004 from \$12.3 million during the same period in 2003. As a percentage of revenue, gross profit declined to 53.3% in 2004 from 53.6% in 2002. This was primarily attributable to increased sales contribution from certain of Gaiam's lower margin endeavors within the direct to consumer segment, and was partially offset by improved gross margin in the business segment.

Selling and operating expenses (which consist primarily of sales and marketing costs, commission and fulfillment expenses) increased to \$11 million for the three months ended March 31, 2004 as compared to \$10.6 million in the same period of 2003, primarily resulting from increases associated with higher sales volume. During the second half of 2003, Gaiam doubled its business sales force and increased other sales and marketing expenditures in order to launch new sales strategies, including expansion in mass market retailers and bookstores, and new entries into the grocery market. New sales personnel are paid under a minimum guarantee arrangement while training, so their compensation will start to fluctuate with performance in the second half of 2004. As a percentage of revenues, selling and operating expenses increased to 46.1% in 2004 from 45.9% in 2003.

Corporate, general and administration expenses decreased to \$2.0 million for the first quarter of 2004 from \$2.3 million in the comparable 2003 period, and decreased to 8.6% of revenues in 2004 from 9.9% of revenues in 2003. This expense reduction is generally attributable to cost savings generated by the consolidation of administrative services into Gaiam's Colorado headquarters and the resultant staffing reductions implemented during the first half of 2003.

Operating losses decreased 33.8% to \$329 thousand for the three months ended March 31, 2004 from \$497 thousand for the three months ended March 31, 2003, primarily due to increased revenues and gross profit.

Gaiam recorded \$56 thousand and \$26 thousand in other income, primarily from interest income, for the three months ended March 31, 2004 and 2003, respectively. The share of net income associated with minority interest was \$172 thousand during the first quarter of 2004, compared to \$80 thousand for the comparable 2003 period. This increase was primarily due to the increased profitability of our eco-travel subsidiary.

Gaiam recorded an income tax benefit of \$116 thousand for the three months ended March 31, 2004 compared to an income tax benefit of \$198 thousand for the three months ended March 31, 2003.

As a result of the factors described above, Gaiam's net loss was \$329 thousand for the three months ended March 31, 2004 compared to a net loss of \$353 thousand recorded for the three months ended March 31, 2003. Despite these losses, Gaiam's cash generated by operations grew to \$2.7 million in 2004, from \$1.5 million for the same period in 2003, which increased our cash position to \$11 million at March 31, 2004.

Liquidity and Capital Resources

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

In 2002, Gaiam executed a new credit agreement with Wells Fargo, which expires during 2005, and permits borrowings of up to \$15 million based upon the collateral value of Gaiam's accounts receivable, inventory and certain property and equipment. Borrowings under the credit agreement bear interest at the lower

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of prime rate less 50 basis points or LIBOR 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. At March 31, 2004, Gaiam had no amounts outstanding under this agreement and

complied with all of the financial covenants.

Gaiam's operating activities generated net cash of \$2.7 million and \$1.5 million for the three months ended March 31, 2004 and 2003, respectively. Gaiam's net cash generated from operating activities for both periods is primarily attributable to a decrease in accounts receivable of \$5.7 million in 2004 and \$8.0 million in 2003, which was partially offset by decreases in accounts payable of \$4.5 million in 2004 and \$3.6 million in 2003. Additionally, during the first quarter of 2003, accrued expenses and income taxes payable decreased a combined \$2.5 million. Non-cash charges to net income were \$1.2 million and \$852 thousand for the three months ended March 31, 2004 and 2003, respectively.

Gaiam's investing and acquisition activities used net cash of \$206 thousand and \$4.6 million during the first quarter of 2004 and 2003, respectively. For the first quarter of 2004, Gaiam made \$206 thousand in property and equipment purchases. In January 2003, Gaiam acquired a 50.1% interest in Leisure Systems International, a distributor of wellness products based in the U.K. Total consideration for the acquisition was approximately \$4.3 million in cash and 50,000 shares of Gaiam Class A common stock.

Gaiam's financing activities used net cash of \$12 thousand and provided cash of \$3 thousand during the first quarter of 2004 and 2003, respectively. Cash is used to fund principal payments under capitalized leases, and funds are generated by the exercise of stock options.

We believe our available cash, cash expected to be generated from operations, and borrowing capabilities of \$15 million (unused 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, 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 long-term debt obligations or purchase obligations. The following table shows our commitments to make future payments under operating and capital leases as of March 31, 2004 (in thousands):

	Total	< 1 year	1-3 years	3-5 years	> 5 yrs
Operating lease obligations	\$ 2,815	\$ 1,824	\$ 991	\$ —	\$ —
Capital lease obligations	34	34	—	—	—
Total contractual cash obligations	\$ 2,849	\$ 1,858	\$ 991	\$ —	\$ —

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 March 31, 2004, Gaiam is not involved in any unconsolidated SPEs or VIEs.

Critical Accounting Policies

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

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. In circumstances 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.

Investments

Investments in entities that Gaiam does not have the ability to exercise significant influence are accounted for under the cost method. Under the cost method of accounting, investments in private companies are carried at cost and are adjusted only for other-than-temporary declines in fair value. Investments under the cost method are included on the accompanying consolidated balance sheet in

“Investments.”

Capitalized Production Costs

Capitalized production costs include costs incurred to produce informational media products marketed by Gaiam to retail marketers and direct-mail 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.

Goodwill

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

If the carrying amount of a reporting unit exceeds its fair value, the goodwill impairment test is performed to measure the amount of impairment loss. Gaiam has allocated goodwill to two reporting units, and uses a market value method for the purposes of testing for potential impairment. The annual review requires extensive use of financial judgment and estimates. Application of alternative assumptions and definitions, such as a change in the composition of a reporting unit, could yield significantly different results

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, 2003.

Risk Factors

We wish to caution you that there are risks and uncertainties that could cause our actual results to be materially different from those indicated by forward-looking statements that we make from time to time in filings with the Securities and Exchange Commission, news releases, proxy statements, annual reports, registration statements and other written communications, as well as oral forward-looking statements made from time to time by representatives of Gaiam. These risks and uncertainties include, but are not limited to, those listed in Gaiam’s Annual Report on Form 10-K for the year ended December 31, 2003. These risks and uncertainties and additional risks and uncertainties not presently known to us or that we currently deem

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Any borrowings we might make under our bank credit facility would bear interest at the lower of prime rate less 50 basis points or LIBOR plus 275 basis points. Gaiam does not have any amounts outstanding under its credit 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 made 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 transactions. Because the percentage of our international purchases denominated in currencies other than the U.S. dollar is small, any currency risks related to these transactions are immaterial to Gaiam. A decline in the relative value of the U.S. dollar to other foreign currencies could, however, lead to increased purchasing costs. In order to mitigate this exposure, Gaiam makes virtually all of its purchase commitments in U.S. dollars.

In 2003, Gaiam purchased a 50.1% interest in Leisure Systems International Limited, a U.K. based distributor. Because Leisure Systems’ 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 March 31, 2004.

Item 4. Controls and Procedures

Effective August 2002, the Securities and Exchange Commission adopted rules requiring reporting companies to maintain disclosure controls and procedures to provide reasonable assurance that a registrant is able to record, process, summarize and report the information required in the registrant’s quarterly and annual reports under the Securities Exchange Act of 1934 (the “Exchange Act”).

Gaiam’s chief executive office 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 15d-15(e) under the Exchange Act. Based upon their evaluation as of March 31, 2004, they have concluded that those disclosure controls and procedures are effective.

There have been no changes in Gaiam's internal control over financial reporting that have materially affected, or are reasonably likely to affect, Gaiam's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

a) Exhibits

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

b) Reports on Form 8-K.

On February 26, 2004, Gaiam filed a report on Form 8-K relating to its earnings press release for the fourth quarter and fiscal year 2003.

On May 6, 2004, Gaiam filed a report on Form 8-K relating to its earnings press release for the first quarter 2004.

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Signatures

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

Gaiam, Inc.
(Registrant)
May 7, 2004

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

/s/ Janet Mathews
Janet Mathews
Chief Financial Officer

CERTIFICATION

I, Jirka Rysavy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gaiam, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and 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) 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
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

/s/ Jirka Rysavy

Jirka Rysavy

Chairman and Chief Executive Officer

CERTIFICATION

I, Janet Mathews, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gaiam, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and 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) 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
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

/s/ Janet Mathews

Janet Mathews

Chief Financial Officer

CERTIFICATION 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 Quarterly Report of Gaiam, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2004, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Jirka Rysavy, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: May 7, 2004

/s/ Jirka Rysavy

Jirka Rysavy

Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION 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 Quarterly Report of Gaiam, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2004, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Janet Mathews, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: May 7, 2004

/s/ Janet Mathews

Janet Mathews

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
