

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 Fiscal Quarter Ended June 30, 2000

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 84-1113527  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

360 INTERLOCKEN BLVD., SUITE 300  
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 X 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 August 10, 2000
Class A Common Stock (\$ .0001 par value)	5,462,780
Class B Common Stock (\$ .0001 par value)	5,400,000

INDEX TO FORM 10-Q

PART I.	FINANCIAL INFORMATION	PAGE
Item 1.	Consolidated Financial Statements (Unaudited)	
	Consolidated Balance Sheets at June 30, 2000 and December 31, 1999	3
	Consolidated Statements of Income for the three months ended June 30, 2000 and June 30, 1999	4
	Consolidated Statements of Income for the six months ended June 30, 2000 and June 30, 1999	5
	Consolidated Statement of Cash Flows for the six months ended June 30, 2000 and June 30, 1999	6
	Notes to Interim Consolidated Financial Statements	7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures About Market Risk	15

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	16
Item 2. Changes in Securities and Use of Proceeds	16
Item 3. Defaults Upon Senior Securities	16
Item 4. Submission of Matters to a Vote of Security Holders	16
Item 5. Other Information	16
Item 6. Exhibits and Reports on Form 8-K	16

This report may contain forward-looking statements that involve risks and uncertainties. When used in this discussion, the words "anticipate," "believe," "estimate," "expect," and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. The Company'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" and elsewhere in this report. Risks and uncertainties that could cause actual results to differ include, without limitation, competition, pricing, brand reputation, acquisitions, our shift in emphasis to Internet sales, security and information systems, consumer trends, customer interest in our products, general economic conditions, and the effect of government regulation. 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 statement.

2

GAIAM, INC.  
CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

	June 30, 2000	December 31, 1999
	<C>	<C>
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,592,444	\$ 3,877,465
Accounts receivable, net	3,689,060	4,326,594
Accounts and notes receivable, other	3,266,755	573,450
Inventory, less allowances	6,553,398	4,555,436
Income tax receivable	-	182,474
Deferred advertising costs	2,201,411	2,176,325
Other current assets	455,831	393,330
Total current assets	24,758,899	16,085,074
Property and equipment, net	7,019,068	3,168,183
Capitalized production costs, net	2,214,126	1,636,706
Video library, net	4,621,630	4,792,456
Goodwill, net	1,208,119	1,239,507
Other assets	665,735	337,759
Total assets	\$40,487,577	\$27,259,685

Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 7,862,417	\$ 7,618,344
Accrued liabilities	1,849,863	1,734,310
Accrued royalties	359,314	725,541
Income taxes payable	62,869	-
Capital lease obligations, current	90,547	95,844
Total current liabilities	10,225,010	10,174,039
Capital lease obligations, long-term	161,198	209,074
Line of credit	2,900,000	1,900,000
Minority interest	5,902,646	26,030
Stockholders' equity:		
Class A common stock, \$.0001 par value, 92,965,000 shares authorized, 5,462,780 and 5,441,537 shares issued and outstanding at June 30, 2000 and December 31, 1999, respectively	546	544
Class B common stock, \$.0001 par value, 7,035,000 shares authorized, 5,400,000 issued and outstanding at June 30, 2000 and December 31, 1999, respectively	540	540
Redeemable Class A preferred stock in subsidiary, \$.0001 par value, 10,000 shares authorized, 6,000 shares issued and outstanding	6,000,000	-
Additional paid-in capital	10,982,986	11,038,551
Deferred compensation	(106,992)	(106,992)
Retained earnings	4,421,643	4,017,899
Total stockholders' equity	21,298,723	14,950,542
Total liabilities and stockholders' equity	\$40,487,577	\$27,259,685

</TABLE>

3

GAIAM, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

<TABLE>  
<CAPTION>

	For the Three Months Ended	
	June 30,	
	2000	1999
<S>	<C>	<C>
Net revenue	\$11,385,982	\$8,068,069
Cost of goods sold	4,655,562	3,219,003
Gross profit	6,730,420	4,849,066
Expenses:		
Selling and operating	5,421,658	4,301,235
Corporate, general and administration	1,014,321	842,045
Total expenses	6,435,979	5,143,280
Income (loss) from operations	294,441	(294,214)

Other income (expense):		
Realized gain on sale of securities and other income (expense)	121,918	261,940
Interest expense	(96,046)	(112,800)
	-----	
Other income (expense)	25,872	149,140
	-----	
Income (loss) before income taxes and minority interest	320,313	(145,074)
Provision for income taxes	120,213	(53,968)
Minority interest in net income (loss) of consolidated subsidiary, net of tax	(352)	(162,569)
	-----	
Net income	\$ 200,452	\$ 71,463
	=====	

Net income per share:		
Basic	\$0.02	\$0.01
Diluted	\$0.02	\$0.01

Shares used in computing net income per share:		
Basic	10,856,342	8,358,493
Diluted	11,544,391	8,605,593

</TABLE>

4

GAIAM, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

<TABLE>  
<CAPTION>

	For the Six Months Ended	
	June 30,	
	2000	1999
	-----	
<S>	<C>	<C>
Net revenue	\$23,944,419	\$17,563,080
Cost of goods sold	9,577,873	7,074,663
	-----	
Gross profit	14,366,546	10,488,417
Expenses:		
Selling and operating	11,485,448	8,877,360
Corporate, general and administration	2,130,298	1,795,610
	-----	
Total expenses	13,615,746	10,672,970
	-----	
Income (loss) from operations	750,800	(184,553)
Other income (expense):		
Realized gain on sale of securities and other income (expense)	45,623	409,688
Interest expense	(142,696)	(207,926)
	-----	
Other income (expense)	(97,073)	201,762
	-----	
Income before income taxes and minority interest	653,727	17,209
Provision for income taxes	245,343	6,401
Minority interest in net income (loss) of consolidated subsidiary, net of tax	4,640	(166,822)
	-----	
Net income	\$ 403,744	\$ 177,630

Net income per share:

Basic	\$0.04	\$0.02
Diluted	\$0.04	\$0.02

Shares used in computing net income per share:

Basic	10,848,935	8,317,822
Diluted	11,524,526	8,564,932

</TABLE>

5

GAIAM, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

<TABLE>  
<CAPTION>

For the Six Months  
Ended June 30,  
2000 1999

	<C>	<C>
-----		
<S>		
Operating activities		
Net income	\$ 403,744	\$ 177,630
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	623,908	273,419
Interest expense added to principal of margin loan	-	7,411
Minority interest in consolidated subsidiary	4,640	(166,822)
Realized gains on sale of securities and property and equipment	-	(482,692)
Deferred tax expense	-	(45,835)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	637,534	1,463,260
Inventory	(1,840,329)	(521,175)
Deferred advertising costs	(25,086)	11,232
Capitalized production costs	(577,420)	(152,169)
Prepaid assets	(62,501)	(406,362)
Other assets	5,205	(357,236)
Accounts payable	142,529	(3,714,935)
Accrued liabilities	(425,674)	(579,287)
Income taxes payable	245,343	(108,599)
	-----	-----
Net cash provided by (used in) operating activities	(868,107)	(4,602,160)
	-----	-----
Investing activities		
Purchase of property, equipment and other assets	(4,670,436)	(64,884)
Proceeds from the sale of securities available-for-sale	-	538,750
Cash acquired through acquisition activities	3,000,000	-
Payments (borrowings) on notes receivable	306,695	(91,130))
	-----	-----
Net cash provided by (used in) investing activities	(1,363,741)	382,736
	-----	-----
Financing activities		
Principal payments on capital leases	(53,173)	(27,889)
Proceeds from issuance of common stock	-	1,450,000
Proceeds from sale of preferred stock in subsidiary	6,000,000	-
Proceeds from convertible debt	-	1,151,949
Net proceeds from (payments on) borrowings	1,000,000	1,091,470
	-----	-----
Net cash provided by (used in) financing activities	6,946,827	3,665,530
	-----	-----

Net change in cash and cash equivalents	4,714,979	(553,894)
Cash and cash equivalents at beginning of period	3,877,465	1,409,939
	-----	
Cash and cash equivalents at end of period	\$ 8,592,444	\$ 856,045
	=====	
Supplemental cash flow information		
Interest paid	\$ 131,638	\$ 166,824
Income taxes paid	-	115,000

</TABLE>

6

Gaiam, Inc.  
Notes to Interim Condensed Consolidated Financial Statements  
(Unaudited)  
June 30, 2000

1. Interim Condensed Consolidated Financial Statements

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Organization and Nature of Operations  
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Gaiam, Inc. (the "Company") was incorporated under the laws of the State of Colorado on July 7, 1988. Gaiam is a lifestyle company providing information, goods and services to customers who value the environment, personal development and healthy lifestyles.

The accompanying consolidated financial statements include the accounts of the Company, its subsidiaries and partnerships in which ownership is greater than 50% and considered to be under the control of the Company. 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, Inc. 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 the Company's consolidated financial position as of June 30, 2000 and the interim results of operations and cash flows for the three and six months ended June 30, 2000 and 1999. These interim statements have not been audited. The balance sheet as of December 31, 1999 was derived from the Company's audited consolidated financial statements included in the Company'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 principals have been condensed or omitted pursuant to such rules and regulations. Accounting policies followed by the Company are described in Note 1 to the audited financial statements for the fiscal year ended December 31, 1999 included in the Company'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, 1999.

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.

7

Gaiam, Inc.  
Notes to Interim Condensed Consolidated Financial Statements

Use of Estimates  
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The preparation of 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.

Recently Issued Accounting Standards Not Yet Adopted  
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On June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. The Company does not expect that the adoption of SFAS No. 133 will have a material impact on its financial statements because it does not currently hold any material derivative instruments.

In May 2000, the Emerging Issues Task Force issued EITF 00-14, "Accounting for Certain Sales Incentives." Under the provisions of EITF 00-14, for sales incentives that will not result in a loss on the sale of a product or service, a vendor should recognize the "cost" of the sales incentive at the latter of the date the related revenue is recorded by the vendor or the date the sales incentive is offered. A reduction to or refund of the selling price of the product or service resulting from any cash sales incentive should be classified as a reduction of revenue. Costs of free products or services delivered at the time of sale should be classified as an expense. The EITF should be applied in the fourth quarter of the fiscal year beginning after December 15, 1999. Management does not expect the adoption of EITF 00-14 to have a material impact on the Company's consolidated financial statements.

2. Mergers and Acquisitions  
-----

On June 30, 2000, Gaiam, Inc. and Wholepeople.com, Inc. ("Amrion") contributed their Internet properties (the "Contribution") into a newly formed company subsequently renamed Gaiam.com, Inc. The Contribution was made pursuant to the terms of a contribution agreement among Gaiam, Amrion, and certain related parties. In exchange for the contributed Internet properties, Gaiam received 50.1% of Gaiam.com's common stock and Amrion received the

Mergers and Acquisitions (continued)  
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remaining 49.9% of Gaiam.com's common stock. Gaiam.com, which will continue its Internet e-commerce business, and will be consolidated by Gaiam with Gaiam's other operations. In exchange for their share of Gaiam.com, Amrion contributed \$3.0 million in cash, a \$3.0 million short-term note and other Internet assets. On July 11, 2000, Gaiam, Inc. filed a report on Form 8-K reporting this transaction. In accordance with the provisions of the instructions to Item 7 (a) and (b) of Form 8-k, the financial statements and pro forma financial information required by these Items will be filed no later than 60 days after the date the report on Form 8-K must be filed.

3. Line of Credit

-----

In May 2000, the Company consolidated its line of credit agreements with Wells Fargo Bank into one agreement. The new credit agreement, which extends through January 31, 2002, permits borrowings up to \$5 million based upon the collateral value of Gaiam's accounts receivable and inventory held for resale. Borrowings under this agreement bear interest at the prime rate, which was 9.5% at June 30, 2000. These borrowings are secured by a pledge of Gaiam's assets and contain various financial covenants, including prohibiting the payment of cash dividends to its shareholders and requiring maintenance of certain financial ratios.

4. Stockholders' Equity

-----

On June 19, 2000, Gaiam, Inc. sold 6,000 shares of Redeemable Class A preferred stock in its Internet subsidiary, Gaiam.com, Inc., at a price of \$1,000 per share for an aggregate price of \$6,000,000. This stock is redeemable upon the consummation of any offering by Gaiam.com of its equity securities to the public pursuant to an effective registration statement with the Securities and Exchange Commission.

During the second quarter of 2000, Gaiam issued 21,243 shares of Class A common stock for an acquisition, and the e-commerce rights and purchase option in an organic clothing manufacturer.

Gaiam, Inc.  
Notes to Interim Condensed Consolidated Financial Statements  
(Unaudited)  
June 30, 2000

5. Earnings per Share

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Basic earnings per share excludes any dilutive effects of options, warrants, and dilutive securities. Basic earnings 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 if their effect is antidilutive. All earnings per share amounts for all period have been presented and conform to the Statement No. 128 requirements.

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

<TABLE>  
<CAPTION>

	Six Months Ended		
	June 30,		
	2000	1999	
	-----		
<S>	<C>	<C>	
Numerator for basic earnings per share		\$ 403,744	\$ 177,630
Effect of Dilutive Securities:			
8% convertible debentures		-	24,245
		-----	
Numerator for diluted earnings per share		\$ 403,744	\$ 201,875
		=====	
Denominator:			
Weighted average shares for basic earnings per share	10,848,935	8,317,822	



Effect of Dilutive Securities:

Weighted average of common stock, Stock options, warrants and convertible debentures	675,591	247,110
	-----	
Denominator for diluted earnings per share	11,524,526	8,564,932
	=====	
Net income per share - basic	\$ 0.04	\$ 0.02
Net income per share - diluted	\$ 0.04	\$ 0.02

10

Gaiam, Inc.  
Notes to Interim Condensed Consolidated Financial Statements  
(Unaudited)  
June 30, 2000

6. Segment Information

The Company has two business segments: Direct to Consumer and Business to Business; both of which sell products, services and information produced or purchased from other suppliers. Although the customer bases do not overlap to any significant extent, the production, purchase and delivery processes overlap in some areas. The Company does not accumulate the balance sheet by segment for purposes of management review.

Each of the two segments qualifies as such because each is more than 10% of combined revenue. Contribution margin is defined as net sales, less cost of goods sold and direct expenses. Financial information for the Company's business segments was as follows:

<TABLE>  
<CAPTION>

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2000	1999	2000	1999
	-----		-----	
	<C>	<C>	<C>	<C>
Net revenue:				
Direct to consumer	\$ 8,922,219	\$ 6,759,439	\$18,731,874	\$13,771,675
Business to business	2,463,763	1,308,630	5,212,545	3,791,405
	-----		-----	
Consolidated net revenue	11,385,982	8,068,069	23,944,419	17,563,080
Contribution margin:				
Direct to consumer	(37,836)	64,504	6,540	(448,539)
Business to business	332,277	(358,718)	744,260	263,986
	-----		-----	
Consolidated contribution margin	294,441	(294,214)	750,800	(184,553)
Reconciliation of contribution margin to net income:				
Other income	25,872	149,140	(97,073)	201,762
Income tax expense	120,213	(53,968)	245,343	6,401
Minority interest expense	(352)	(162,569)	4,640	(166,822)
	-----		-----	
Net income	\$ 200,452	\$ 71,463	\$ 403,744	\$ 177,630
	=====		=====	

</TABLE>

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 included elsewhere in this document.

Three months ended June 30, 2000 compared to three months ended June 30, 1999  
 -----

Revenues increased 41.1% to \$11.4 million for the three months ended June 30, 2000 from \$8.1 million during the three months ended June 30, 1999. The Company's internal growth rate was 33% for the second quarter of 2000, fueled primarily by the continued success of its e-commerce business and a growing presence of the Gaiam brand in national retailers.

Gross profit, which consists of revenues less costs of sales, increased 38.8% to \$6.7 million for the second quarter of 2000 from \$4.8 million during the same period in 1999. As a percentage of revenue, gross profit decreased to 59.1% in 2000 from 60.1% in 1999. This was primarily attributable to a shift in the sales mix. Gaiam.com generated \$3.0 million in revenues for the second quarter of 2000, and achieved a gross profit margin of 55.9%.

Selling and operating expenses, which consist primarily of sales and marketing costs, commissions and fulfillment expenses increased 26% to \$5.4 million for the three months ended June 30, 2000 from \$4.3 million for the same period in 1999. As a percentage of revenues, selling and operating expenses decreased to 47.6% in 2000 from 53.3% in 1999.

Corporate, general and administrative expenses increased to \$1 million for the second quarter of 2000, compared to \$842,045 for the corresponding period in 1999. As a percentage of revenues, general and administrative expenses decreased to 8.9% in 2000 from 10.4% in 1999.

Operating income, as a result of the factors described above, increased to \$294,441 for the three months ended June 30, 2000 from an operating loss \$294,214 for the three months ended June 30, 1999.

The Company recorded \$121,918 in other income during the second quarter of 2000, compared to other income of \$261,940 for the comparable period in 1999. During 1999, the Company recognized a gain on the sale of its marketable securities of \$223,014. Interest expense declined to \$96,046 for the three months ended June 30, 2000 from \$112,800 for the three months ended June 30, 1999, due to a reduction in debt levels.

Minority interest in net income was a negative \$352 for the three months ended June 30, 2000 compared to a negative \$162,569 for the same period in 1999.

Income tax provision was \$120,213 for the three months ended June 30, 2000 as compared to a credit of \$53,968 for the three months ended June 30, 1999.

Net income, as a result of the factors described above, increased 180.5% to \$200,452 for the three months ended June 30, 2000 from \$71,463 for the comparable period in 1999.

Six months ended June 30, 2000 compared to six months ended June 30, 1999  
 -----

Revenues increased 36.3% to \$23.9 million for the six months ended June 30, 2000 from \$17.6 million during the six months ended June 30, 1999. The Company's internal growth rate was 29% for the first six months of 2000, fueled primarily by the growth of its e-commerce business.

Gross profit, which consists of revenues less costs of sales, increased 37% to \$14.4 million for the first six months of 2000 from \$10.5 million during the same period in 1999. As a percentage of revenue, gross profit increased to 60% in 2000 from 59.7% in 1999. This was primarily attributable to increases in the sales of proprietary or private-labeled branded products, on which Gaiam has better margins than other products.

Selling and operating expenses, which consist primarily of sales and marketing

costs, commissions and fulfillment expenses, increased 29.4%, less than the revenue increase of 36.3%, to \$11.5 million for the six months ended June 30, 2000 from \$8.9 million for the same period in 1999. As a percentage of revenues, selling and operating expenses decreased to 48% in 2000 from 50.5% in 1999.

Corporate, general and administrative expenses increased to \$2.1 million for the first six months of 2000, compared to \$1.8 million for the corresponding period in 1999. As a percentage of revenues, general and administrative expenses decreased to 8.9% in 2000 from 10.2% in 1999.

Operating income, as a result of the factors described above, increased to \$750,800 for the six months ended June 30, 2000 from an operating loss \$184,553 for the six months ended June 30, 1999.

The Company recorded \$45,623 in other income during the six months ended June 30, 2000, compared to other income of \$409,688 for the comparable period in 1999. During 1999, the Company recognized gains on the sale of its marketable securities of \$528,528. Interest expense declined to \$142,696 for the first half of 2000 from \$207,926 for the three months ended June 30, 1999, due to a reduction in debt levels.

Minority interest in net income was \$4,640 for the six months ended June 30, 2000 compared to a negative \$166,822 for the same period in 1999.

Income tax provision of \$245,343 represented 37.5% of pre-tax income for the six months ended June 30, 2000, as compared to a \$6,401 tax provision, or 37.2% of pre-tax income, for the six months ended June 30, 1999.

Net income, as a result of the factors described above, increased 127.3% to \$403,744 for the six months ended June 30, 2000 from \$177,630 for the comparable period in 1999.

#### Liquidity and Capital Resources

Gaiam's capital needs arise from working capital required to fund our operations, capital expenditures related to expansions and improvements to Gaiam's infrastructure, development of e-commerce, and funds required in connection with the acquisitions of new businesses and its 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 its 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 plans to expand its sales and marketing programs and conduct more aggressive brand promotions.

During the first six months of 1999, Gaiam raised \$1.45 million from the private placement of 331,429 shares of Class A common stock and \$1.425 million in debentures. The privately placed shares were sold at \$4.375 per share, and the 8% convertible debentures matured on the earlier of one year after the date of the debenture or the closing date of the initial public offering. In October 1999, we repaid \$500,000 of the convertible debentures and, simultaneous with the closing of the initial public offering, converted the remaining \$1.475 million in debentures to 295,000 shares of Class A common stock.

Gaiam's initial public offering of 1,705,000 shares of Class A common stock at \$5.00 per share was completed in October 1999. Simultaneous with this offering, Gaiam converted \$1.475 million in debentures to 295,000 shares of Class A common stock, resulting in a total issuance of 2,000,000 shares. The offering's underwriters also exercised their over-allotment option for 102,861 additional shares during November 1999. Net proceeds to Gaiam, after deducting all commissions and expenses associated with the offering, were \$6.1 million.

In May 2000, Gaiam consolidated its line of credit agreements with Wells Fargo Bank into one agreement. The new credit agreement, which extends through

January 31, 2002, permits borrowings up to \$5 million based upon the collateral value of Gaiam's accounts receivable and inventory held for resale. Borrowings under this agreement are secured by a pledge of Gaiam's assets. Principal repayment of amounts borrowed under this line of credit agreement are due either when the collateral value of Gaiam's accounts receivable and inventory drops below prescribed levels or upon maturity of the agreements, whichever occurs first. Borrowings under the Wells Fargo credit agreement bear interest at the prime rate. The Wells Fargo credit agreement contains various financial covenants and also prohibits Gaiam from paying dividends to its shareholders.

Gaiam's operating activities used net cash of \$868,107 for the six months ended June 30, 2000 and used \$4.6 million of net cash for the same period in 1999. Gaiam's net cash used by operating activities for 2000 arose primarily from an increase in inventories in order to support additional revenue growth, including store-within-store rollouts. Net cash used

14

during 1999 was primarily a result of a seasonal reduction in accounts payable and accrued expenses.

Gaiam's investing activities used cash of \$1.3 million for the six months ended June 30, 2000. This use of cash arose primarily from costs associated with the direct-to-consumer web site, and additional property and equipment purchases to support our increasing volumes totaling \$4.7 million. On June 30, 2000, Gaiam and Wholepeople.com ("Amrion"), a subsidiary of Whole Foods Market, merged their Internet businesses into a newly formed company subsequently renamed Gaiam.com, Inc. In exchange for contributed Internet properties, Gaiam received 50.1% of Gaiam.com's common stock and Amrion received the remaining 49.9% of Gaiam.com's common stock. As part of this transaction, Amrion contributed \$3 million in cash, a \$3 million short-term note, and other Internet assets to Gaiam.com. During the first six months of 1999, Gaiam generated \$382,736 in cash from investing activities, largely from the sale of marketable securities.

During the six months ended June 30, 2000, Gaiam's financing activities provided \$6.9 million in cash. In June 2000, Gaiam sold 6,000 shares of Redeemable Series A Preferred Stock in Gaiam.com for a total consideration of \$6 million. During the same period in 1999, Gaiam's financing activities provided \$3.7 million in cash primarily from borrowing activities and the issuance of common stock.

As Gaiam continues to expand its business-to-business e-commerce presence, we anticipate making additional investments in web site design and technology, and, with additional planned business growth, will be investing in additional capacity.

We believe our available cash, cash expected to be generated from operations, and borrowing capabilities will 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, majority and minority investment, strategic relationship and other business combination opportunities in the Lohas industry. In the event of any future investment, acquisition or joint venture opportunities, we may consider using then-available liquidity, issuing equity securities or incurring additional indebtedness.

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

We do not believe that any of our financial instruments have significant risk associated with market sensitivity.

15

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Gaiam is not party to any material legal proceedings.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

On June 8, 2000, Gaiam held its Annual Meeting of Shareholders. The shareholders elected all five currently serving directors of Gaiam to serve until the next annual meeting of shareholders to be held in 2001 or until their successors are duly elected and qualified. The results of this vote follow:

Jirka Rysavy	For: 58,191,400	Withheld: 5,878
Lynn Powers	For: 58,191,550	Withheld: 5,728
Barnet Feinblum	For: 58,191,450	Withheld: 5,828
Barbara Mowry	For: 58,191,500	Withheld: 5,778
Paul Ray	For: 58,191,450	Withheld: 5,828

Item 5. Other Information.

None.

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

a) Exhibits

27.1 Financial Data Schedule

b) Reports on Form 8-K.

On July 11, 2000, Gaiam, Inc. filed a report on Form 8-K reporting that,

16

on June 30, 2000, Gaiam, Inc. and Wholepeople.com, Inc. ("Amrion") contributed their Internet properties (the "Contribution") into a newly formed company subsequently renamed Gaiam.com, Inc. The Contribution was made pursuant to the terms of a contribution agreement among Gaiam, Amrion, and certain related parties. In exchange for the contributed Internet properties, Gaiam received 50.1% of Gaiam.com's common stock and Amrion received the remaining 49.9% of Gaiam.com's common stock. Gaiam.com, which will continue its Internet e-commerce business, and will be consolidated by Gaiam with Gaiam's other operations. In accordance with the provisions of the instructions to Item 7 (a) and (b) of Form 8-K, the financial statements and pro forma financial information required by these Items will be filed no later than 60 days after the date the report on Form 8-K must be filed.

17

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)  
August 10, 2000

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

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

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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