

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 September 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 November 8, 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

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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.

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GAIAM, INC.
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

Assets	September 30, 2000	December 31, 1999

	(Unaudited)	
	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 5,016,853	\$ 3,877,465
Accounts receivable, net	4,452,909	4,326,594
Accounts and notes receivable, other	2,333,861	573,450
Inventory, less allowances	8,255,777	4,555,436
Income tax receivable	-	182,474
Deferred advertising costs	3,719,821	2,176,325
Other current assets	976,707	393,330

Total current assets	24,755,928	16,085,074
Property and equipment, net	7,042,543	3,168,183
Capitalized production costs, net	2,214,637	1,636,706
Video library, net	4,556,362	4,792,456
Goodwill, net	1,190,175	1,239,507
Other assets	836,812	337,759

Total assets	\$ 40,596,457	\$ 27,259,685
	=====	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 7,282,839	\$ 7,618,344
Accrued liabilities	1,789,186	1,734,310
Accrued royalties	262,311	725,541

Income taxes payable	331,158	-
Capital lease obligations, current	88,292	95,844

Total current liabilities	9,753,786	10,174,039
Capital lease obligations, long-term	136,712	209,074
Line of credit	2,900,000	1,900,000

Total long-term liabilities	3,036,712	2,109,074
Minority interest	5,917,127	26,030
Stockholders' equity:		
Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 5,462,780 and 5,441,537 shares issued and outstanding at September 30, 2000 and December 31, 1999, respectively	546	544
Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at September 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	(96,293)	(106,992)
Retained earnings	5,001,053	4,017,899

Total stockholders' equity	21,888,832	14,950,542

Total liabilities and stockholders' equity	\$ 40,596,457	\$ 27,259,685
	=====	=====

</TABLE>

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GAIAM, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

<TABLE>
<CAPTION>

	For the Three Months Ended	
	September 30,	
	2000	1999
	-----	-----
<S>	<C>	<C>
Net revenue	\$ 13,630,024	\$ 10,288,134
Cost of goods sold	5,501,528	4,066,441
	-----	-----
Gross profit	8,128,496	6,221,693
Expenses:		
Selling and operating	5,952,080	4,780,442
Corporate, general and administration	1,194,039	1,046,137
	-----	-----
Total expenses	7,146,119	5,826,579
	-----	-----
Income from operations	982,377	395,114
Other income (expense):		
Realized gain on sale of securities and other income (expense)	(42,531)	714,909
Interest income (expense)	10,837	(83,040)
	-----	-----
Other income (expense)	(31,694)	631,869
	-----	-----
Income before income taxes and minority interest	950,683	1,026,983

Provision for income taxes	356,792	382,038
Minority interest in net income of consolidated subsidiary, net of tax	14,481	92,738
Net income	\$ 579,410	\$ 552,207
Net income per share:		
Basic	\$ 0.05	\$ 0.06
Diluted	\$ 0.05	\$ 0.06
Shares used in computing net income per share:		
Basic	10,862,780	8,531,429
Diluted	11,537,474	8,826,429

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GAIAM, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

<TABLE>
<CAPTION>

	For the Nine Months Ended September 30,	
	2000	1999
Net revenue	\$ 37,574,443	\$ 27,851,214
Cost of goods sold	15,079,401	11,141,104
Gross profit	22,495,042	16,710,110
Expenses:		
Selling and operating	17,437,528	13,657,802
Corporate, general and administration	3,324,337	2,841,747
Total expenses	20,761,865	16,499,549
Income from operations	1,733,177	210,561
Other income (expense):		
Realized gain on sale of securities and other income (expense)	3,092	1,124,597
Interest expense	(131,859)	(290,966)
Other income (expense)	(128,767)	833,631
Income before income taxes and minority interest	1,604,410	1,044,192
Provision for income taxes	602,135	388,439
Minority interest in net income (loss) of consolidated subsidiary, net of tax	19,121	(74,084)
Net income	\$ 983,154	\$ 729,837
Net income per share:		
Basic	\$ 0.09	\$ 0.09
Diluted	\$ 0.09	\$ 0.09
Shares used in computing net income per share:		
Basic	10,851,084	8,371,302
Diluted	11,522,223	8,611,872

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

<TABLE>
<CAPTION>

For the Nine Months
Ended September 30,
2000 1999

<S>	<C>	<C>
Operating activities		
Net income	\$ 983,154	\$ 728,267
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,124,821	641,648
Interest expense added to principal of margin loan	-	16,053
Minority interest in consolidated subsidiary	19,121	(74,084)
Realized gains on sale of securities and property and equipment	-	(1,412,366)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(126,315)	384,680
Inventory	(3,542,708)	(1,591,452)
Deferred advertising costs	(1,543,496)	(928,091)
Capitalized production costs	(577,931)	(707,549)
Prepaid assets	(583,377)	(840,680)
Other assets	(165,872)	(64,732)
Accounts payable	(534,052)	(492,008)
Accrued liabilities	(486,351)	(877,059)
Income taxes payable	513,632	165,105
Net cash provided by (used in) operating activities	(4,919,374)	(5,052,268)
Investing activities		
Purchase of property, equipment and other assets	(5,111,612)	(374,951)
Proceeds from the sale of securities available-for-sale	-	1,432,818
Cash acquired through acquisition activities	3,000,000	-
Payments (borrowings) on notes receivable	1,239,589	(115,047)
Net cash provided by (used in) investing activities	(872,023)	942,820
Financing activities		
Principal payments on capital leases	(79,914)	(7,980)
Proceeds from issuance of common stock	10,699	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	1,658,659
Net cash provided by (used in) financing activities	6,930,785	4,252,628
Net change in cash and cash equivalents	1,139,388	143,180
Cash and cash equivalents at beginning of period	3,877,465	1,409,939
Cash and cash equivalents at end of period	\$ 5,016,853	\$ 1,553,119
Supplemental cash flow information		
Interest paid	\$ 222,065	\$ 208,720
Income taxes paid	88,503	222,404

</TABLE>

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 September 30, 2000 and the interim results of operations and cash flows for the three and nine months ended September 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.

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

Use of Estimates

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

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 as either an asset or liability measured at their fair value. In June 1999, the FASB issued Statement of Financial Accounting Standard No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133" delaying the effective date of SFAS No. 133. In June 2000, the FASB issued Statement of Financial Accounting Standard No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" amending certain accounting and reporting standards of SFAS No. 133. SFAS No. 133, as amended, is effective for the Company's fiscal 2001

financial statements. As the Company is currently not a party to any derivative instruments and does not anticipate becoming a party to any derivative instruments, management does not currently expect the adoption of SFAS No. 133, as amended, to have a material impact on the Company's consolidated financial statements.

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.

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Gaiam, Inc.

Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2000

Recently Issued Accounting Standards Not Yet Adopted (continued)

In July 2000, the Emerging Issues Task Force issued EITF 00-10, "Accounting for Shipping and Handling Fees and Costs." Under the provisions of EITF 00-10, amounts billed to a customer in a sale transaction related to shipping and handling represent revenues earned for the goods provided and should be classified as sales revenues. However, the related shipping and handling costs may not be netted against sales revenue. In September 2000, the EITF made an addition to the final consensus reached at the July 2000 meeting requiring the dollar amount and income statement classification of any significant shipping and handling costs be disclosed pursuant to APB Opinion No. 22, "Disclosure of Accounting Policies." The Company currently, and historically, has classified shipping and handling fees earned as revenue, and shipping and handling costs within "selling and operating" expenses. Therefore, management believes the adoption of EITF 00-10 will not have an impact on the Consolidated Statements of Income.

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 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 September 15, 2000, Gaiam, Inc. filed a report on Form 8-K/A reporting this transaction.

On October 13, 2000, Gaiam, Inc. entered into a Merger Agreement with Real Goods Trading Corporation, Inc. pursuant to which Gaiam will acquire 100% of the Real Goods issued and outstanding common stock in exchange for shares of Gaiam's Class A common stock. The merger is subject to approval by the Real Goods shareholders and certain other conditions described in the Merger Agreement. The merger is expected to close in January 2001. If the merger is approved, the Real Goods shareholders will receive one share of Gaiam Class A common stock in exchange for each ten shares of Real Goods common stock. In

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

Mergers and Acquisitions (continued)

addition, the Real Goods shareholders will receive \$1 in gift certificates for Gaiam products for each share owned, up to \$100 per person.

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 September 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.

5. Earnings per Share

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.

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

Earnings per Share (continued)

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

<TABLE>
<CAPTION>

Nine Months Ended	
September 30,	
2000	1999

<S>	<C>	<C>	
Numerator for basic earnings per share		\$ 983,154	\$ 729,837
Effect of Dilutive Securities:			
8% convertible debentures		-	47,872
	-----	-----	
Numerator for diluted earnings per share		\$ 983,154	\$ 777,709
	=====	=====	
Denominator:			
Weighted average shares for basic earnings per share	10,851,084	8,371,302	
Effect of Dilutive Securities:			
Weighted average of common stock, stock options, warrants and convertible debentures	671,139	240,570	
	-----	-----	
Denominator for diluted earnings per share		11,522,223	8,611,872
	=====	=====	
Net income per share - basic		\$ 0.09	\$ 0.09
Net income per share - diluted		\$ 0.09	\$ 0.09

</TABLE>

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

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

Segment Information (continued)

sold and direct expenses. Financial information for the Company's business segments was as follows:

<TABLE>
<CAPTION>

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Net revenue:				
Direct to consumer	\$ 9,567,414	\$ 7,573,779	\$28,299,288	\$21,345,454
Business to business	4,062,610	2,714,355	9,275,155	6,505,760
	-----	-----	-----	-----
Consolidated net revenue	13,630,024	10,288,134	37,574,443	27,851,214
Contribution margin:				
Direct to consumer	143,986	(135,808)	150,526	(584,347)
Business to business	838,391	530,922	1,582,651	794,908
	-----	-----	-----	-----
Consolidated contribution margin	982,377	395,114	1,733,177	210,561
Reconciliation of contribution margin to net income:				

Other income (expense)	(31,694)	631,869	(128,767)	833,631
Income tax expense	356,792	382,038	602,135	388,439
Minority interest expense	14,481	92,738	19,121	(74,084)
	-----	-----	-----	-----
Net income	\$ 579,410	\$ 552,207	\$ 983,154	\$ 729,837
	=====	=====	=====	=====

</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 September 30, 2000 compared to three months ended September

30, 1999

Revenues increased 32.5% to \$13.6 million for the three months ended September 30, 2000 from \$10.3 million during the three months ended September 30, 1999. The Company's internal growth rate was 23% for the third quarter of 2000, fueled primarily by a growing presence of the Gaiam brand in national retailers and the e-commerce business.

Gross profit, which consists of revenues less costs of sales, increased 30.6% to \$8.1 million for the third quarter of 2000 from \$6.2 million during the same period in 1999. As a

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percentage of revenue, gross profit decreased to 59.6% in 2000 from 60.5% in 1999. This was primarily attributable to a shift in the sales mix.

Selling and operating expenses, which consist primarily of sales and marketing costs, commissions and fulfillment expenses, increased 24.5% to \$6.0 million for the three months ended September 30, 2000 from \$4.8 million for the same period in 1999. As a percentage of revenues, selling and operating expenses decreased to 43.7% in 2000 from 46.5% in 1999.

Corporate, general and administrative expenses increased to \$1.2 million for the third quarter of 2000, compared to \$1 million for the corresponding period in 1999. As a percentage of revenues, general and administrative expenses decreased to 8.8% in 2000 from 10.2% in 1999.

Operating income, as a result of the factors described above, increased 148.6% to \$982,377 for the three months ended September 30, 2000 from \$395,114 for the three months ended September 30, 1999.

The Company recorded \$42,531 in other expense during the third quarter of 2000, compared to other income of \$714,909 for the comparable period in 1999. During the third quarter of 1999, the Company recognized a gain on the sale of its marketable securities of \$883,838. The Company generated net interest income of \$10,837 for the three months ended September 30, 2000. During the comparable period in 1999, the Company incurred net interest expense of \$83,040.

Minority interest in net income was \$14,481 for the three months ended September 30, 2000 compared to \$92,738 for the same period in 1999.

Income tax provision was \$356,792 for the three months ended September 30, 2000 as compared to \$382,038 for the three months ended September 30, 1999.

Net income, as a result of the factors described above, increased 4.9% to \$579,410 for the three months ended September 30, 2000 from \$552,207 for the comparable period in 1999.

Nine months ended September 30, 2000 compared to nine months ended September 30,

1999

Revenues increased 34.9% to \$37.6 million for the nine months ended September 30, 2000 from \$27.9 million during the nine months ended September 30, 1999. The Company's internal growth rate was 27% for the first nine months of 2000, fueled primarily by the growth in sales to national retail chains and e-commerce business.

Gross profit, which consists of revenues less costs of sales, increased 34.6% to \$22.5 million for the first nine months of 2000 from \$16.7 million during the same period in 1999. As a percentage of revenue, gross profit decreased to 59.9% in 2000 from 60.0% in 1999.

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Selling and operating expenses, which consist primarily of sales and marketing costs, commissions and fulfillment expenses, increased 27.7%, less than the revenue increase of 34.9%, to \$17.4 million for the nine months ended September 30, 2000 from \$13.7 million for the same period in 1999. As a percentage of revenues, selling and operating expenses decreased to 46.4% in 2000 from 49.0% in 1999.

Corporate, general and administrative expenses increased to \$3.3 million for the first nine months of 2000, compared to \$2.8 million for the corresponding period in 1999. As a percentage of revenues, general and administrative expenses decreased to 8.8% in 2000 from 10.2% in 1999.

Operating income, as a result of the factors described above, increased to \$1,733,177 for the nine months ended September 30, 2000 from \$210,561 for the nine months ended September 30, 1999.

The Company recorded \$3,092 in other income during the nine months ended September 30, 2000, compared to other income of \$1,124,597 for the comparable period in 1999. During 1999, the Company recognized gains on the sale of its marketable securities of \$1,412,366. Net interest expense declined to \$131,859 for the first nine months of 2000 from \$290,966 for the nine months ended September 30, 1999, due to interest income generated during the third quarter of 2000.

Minority interest in net income was \$19,121 for the nine months ended September 30, 2000 compared to a negative \$74,084 for the same period in 1999.

Income tax provision of \$602,135 represented 37.5% of pre-tax income for the nine months ended September 30, 2000, as compared to a \$388,439 tax provision, or 37.2% of pre-tax income, for the nine months ended September 30, 1999.

Net income, as a result of the factors described above, increased 34.7% to \$983,154 for the nine months ended September 30, 2000 from \$729,837 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 Gaiam's 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 plans to expand sales and marketing programs and conduct more aggressive brand promotions.

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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 Gaiam's 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 overallotment 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 shareholders.

Gaiam's operating activities used net cash of \$4.9 million for the nine months ended September 30, 2000 and used \$5.1 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, and seasonal increases in prepaid expenses. Net cash used during 1999 was primarily a result of seasonal increases in inventories and prepaid expenses associated with the increased sales volumes generated during the fourth quarter.

Gaiam's investing activities used cash of \$872,023 for the nine months ended September 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 \$5.1 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 nine months of 1999, Gaiam generated \$942,820 in cash from investing activities, largely from the sale of marketable securities.

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During the nine months ended September 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 \$4.3 million in cash primarily from borrowing activities and the issuance of common stock.

As Gaiam continues to expand, 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.

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.

None.

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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.

None

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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)
November 13, 2000

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

/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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