

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 March 31, 2001

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 May 8, 2001
----- Class A Common Stock (\$.0001 par value)	5,962,550
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," "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, competition, loss of key personnel, pricing, brand reputation, growth of e-commerce, 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, future internet related taxes, control of Gaiam by its founder, fluctuations in quarterly operating results, limited experience in operating retail stores, consumer trends, customer interest in our products, general economic conditions, 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.

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GAIAM, INC.
CONSOLIDATED BALANCE SHEETS

Assets	March 31, 2001	December 31, 2000

	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 6,374,022	\$ 8,578,668
Accounts receivable, net	8,407,739	8,472,828
Accounts and notes receivable, other	755,110	1,097,390
Inventory, less allowances	10,332,540	6,361,046
Deferred advertising costs	1,587,663	1,625,285
Other current assets	1,492,794	1,307,416

Total current assets	28,949,868	27,442,633
Property and equipment, net	15,098,313	10,797,501
Capitalized production costs, net	2,634,363	2,656,666
Video library, net	4,555,481	4,631,140
Goodwill, net	6,032,943	2,379,861
Deferred tax assets	1,285,132	146,132
Other assets	562,004	450,409

Total assets	\$59,118,104	\$48,504,342
	=====	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$11,150,709	\$ 8,091,569
Accrued liabilities	4,416,092	2,109,036
Accrued royalties	1,136,738	867,667

Income taxes payable	591,832	790,267
Capital lease obligations, current	160,705	147,649
Other current liabilities	181,888	167,349

Total current liabilities	17,637,964	12,173,537
Capital lease obligations, long-term	260,614	270,171
Deferred tax liability	412,001	412,001
Long-term debt	6,518,887	5,500,000

Total long-term liabilities	7,191,502	6,182,172
Minority interest	6,120,513	6,037,868
Redeemable Class A preferred stock in subsidiary	6,000,000	6,000,000
Stockholders' equity:		
Class A common stock, \$.0001 par value, 150,000,000 shares authorized, 5,958,505 and 5,473,184 shares issued and outstanding at March 31, 2001 and December 31, 2000, respectively	596	547
Class B common stock, \$.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at March 31, 2001 and December 31, 2000, respectively	540	540
Additional paid-in capital	15,486,392	11,865,734
Deferred compensation	(405,201)	(422,826)
Retained earnings	7,085,798	6,666,770

Total stockholders' equity	22,168,125	18,110,765

Total liabilities and stockholders' equity	\$59,118,104	\$48,504,342
	=====	=====

See accompanying notes.

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GAIAM, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

For the Three Months Ended
March 31,
2001 2000

Net revenue	\$17,671,513	\$12,558,437
Cost of goods sold	6,847,590	4,922,311

Gross profit	10,823,923	7,636,126
Expenses:		
Selling and operating	8,538,352	6,063,790
Corporate, general and administration	1,550,206	1,115,977

Total expenses	10,088,558	7,179,767

Income from operations	735,365	456,359
Other income (expense)	184,615	(76,295)
Interest expense	(116,917)	(46,650)

Total other income (expense)	67,698	(122,945)

Income before income taxes and minority interest	803,063	333,414
Provision for income taxes	301,390	125,130
Minority interest in net income of		

consolidated subsidiary, net of tax	82,645	4,992
Net income	\$ 419,028	\$ 203,292
Net income per share:		
Basic	\$ 0.04	\$ 0.02
Diluted	\$ 0.04	\$ 0.02
Shares used in computing net income per share:		
Basic	11,205,844	10,846,460
Diluted	11,563,172	11,504,973

See accompanying notes.

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

<TABLE>
<CAPTION>

	For the Three Months Ended March 31,	
	2001	2000
	<C>	<C>
<S>		
Operating activities		
Net income	\$ 419,028	\$ 203,292
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	846,832	185,070
Amortization	148,738	102,357
Stock compensation	17,625	-
Minority interest in consolidated subsidiary		82,645 4,992
Deferred tax expense	-	13,891
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	311,406	840,603
Inventory	(1,601,314)	(1,347,842)
Deferred advertising costs	146,269	240,324
Capitalized production costs	22,303	(196,877)
Other current assets	(338,722)	(40,774)
Other assets	(31,153)	19,662
Accounts payable	1,999,746	2,405,494
Accrued liabilities	(661,410)	(406,344)
Income taxes payable	(188,610)	111,239
Net cash provided by operating activities	1,173,383	2,135,087
Investing activities		
Purchase of property and equipment	(467,656)	(3,926,934)
Payments for acquisitions, net of cash acquired	(3,400,663)	-
Net cash used in investing activities	(3,868,319)	(3,926,934)
Financing activities		
Principal payments on capital leases	(28,819)	(22,405)
Proceeds from issuance of common stock	19,109	-
Net proceeds from borrowings	500,000	-
Net cash provided by (used in) financing activities	490,290	(22,405)
Net change in cash and cash equivalents	(2,204,646)	(1,814,252)
Cash and cash equivalents at beginning of period	8,578,668	3,877,465
Cash and cash equivalents at end of period	\$ 6,374,022	\$ 2,063,213
Supplemental cash flow information		
Interest paid	\$ 98,592	\$ 48,609
Income taxes paid	490,000	-

</TABLE>

See accompanying notes.

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Gaiam, Inc.
Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)
March 31, 2001

1. Interim Condensed Consolidated Financial Statements

Organization and Nature of Operations

Gaiam, Inc. was incorporated under the laws of the State of Colorado on July 7, 1988. Gaiam is a multi-channel lifestyle company providing information, goods and services to customers who value personal development, healthy living and the environment.

The accompanying consolidated financial statements include the accounts of Gaiam, its subsidiaries and partnerships in which ownership is greater than 50% and considered to be under the control of Gaiam. 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, 2001 and the interim results of operations and cash flows for the three months ended March 31, 2001 and 2000. These interim statements have not been audited. The balance sheet as of December 31, 2000 was derived from Gaiam's audited consolidated financial statements included in Gaiam'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 Gaiam are described in Note 1 to the audited financial statements for the fiscal year ended December 31, 2000 included in Gaiam'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, 2000.

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)
March 31, 2001

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.

Adoption of Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by Statements 137 and 138 in June 1999 and June 2000, respectively. SFAS No. 133 was effective for Gaiam's fiscal year beginning on January 1, 2001. 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 adoption of SFAS No. 133, effective January 1, 2001, did not have any impact on Gaiam's consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2000 financial statements to conform with 2001 presentation.

2. Mergers and Acquisitions

On January 29, 2001, Gaiam completed its merger with Real Goods Trading Corporation. In the tax-free stock-for-stock transaction, Real Goods shareholders received one share of Gaiam Class A common stock in exchange for each ten shares of Real Goods stock owned. The merger was accounted for using the purchase method.

On January 5, 2001 and February 1, 2001, respectively, Gaiam acquired all of the stock of Earthlings, Inc. and Self Care, Inc. (companies under common ownership with the Chief Executive Officer of Gaiam) at his company's net investment cost plus transaction expenses. As these companies were under common control, the purchase was accounted for using historical costs. Therefore, the difference between the purchase price and the value of net assets acquired was accounted for as a reduction to additional paid-in capital, similar to a pooling transaction. Total combined purchase price for both companies was \$3,848,014.

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Gaiam, Inc.

Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)
March 31, 2001

3. Stockholders' Equity

During the first quarter of 2001, Gaiam agreed to issue approximately 481,424 shares of Class A common stock in conjunction with its merger with Real Goods, and issued 3,897 shares of Class A common stock upon exercise of options granted under the 1999 Long-Term Incentive Plan.

4. Earnings per Share

Basic earnings per share exclude 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>

	Three Months Ended	
	March 31,	
	2001	2000

<S>	<C>	<C>
Net income	\$ 419,028	\$ 203,292
	=====	
Denominator:		
Weighted average shares for basic earnings per share	11,205,844	10,846,460
Effect of Dilutive Securities:		
Weighted average of common stock, stock options, warrants and convertible debentures	357,328	658,513

Denominator for diluted earnings per share	11,563,172	11,504,973
	=====	
Net income per share - basic	\$ 0.04	\$ 0.02
Net income per share - diluted	\$ 0.04	\$ 0.02

</TABLE>

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Gaiam, Inc.
Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)
March 31, 2001

5. Subsequent Events

During April 2001, Gaiam entered into new credit agreements with Wells Fargo Bank West N.A. These agreements increase Gaiam's borrowing capacity from \$6.5 million to \$14.9 million. Under a revolving line of credit Gaiam has availability of up to \$10 million with a maturity date of June 30, 2003, and under a term loan Gaiam may borrow up to \$4.9 million, with a maturity of July 1, 2006. Borrowings under these agreements bear interest at the lower of prime rate less 50 basis points or LIBOR plus 275 basis points. These borrowings are secured by a pledge of Gaiam's assets, and contain various financial covenants, including prohibiting the payment of cash dividends to Gaiam's shareholders and requiring the maintenance of certain financial ratios.

6. Segment Information

Gaiam 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. Gaiam 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. Financial information for Gaiam's business segments was as follows (contribution margin as used below is net sales, less cost of goods sold and direct expenses):

<TABLE>

<CAPTION>

	For the Three Months Ended March 31,	
	2001	2000

<S>	<C>	<C>
Net revenue:		
Direct to consumer	\$ 10,536,386	\$ 9,809,655
Business to business	7,135,127	\$ 2,748,782

Consolidated net revenue	17,671,513	12,558,437
Contribution margin:		
Direct to consumer	97,736	44,376
Business to business	637,629	411,983
	-----	-----
Consolidated contribution margin	735,365	456,359
Reconciliation of contribution margin to net income:		
Other income (expense)	67,698	(122,945)
Income tax expense	301,390	125,130
Minority interest expense	82,645	4,992
	-----	-----
Net income	\$ 419,028	\$ 203,292
	=====	=====

</TABLE>

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

The following discussion and analysis of Gaiaam'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 March 31, 2001 compared to three months ended March 31, 2000

Revenues increased 40.7% to \$17.7 million for the three months ended March 31, 2001 from \$12.6 million during the three months ended March 31, 2000. Gaiaam's internal growth rate was 21%, fueled primarily by the growth in sales of Gaiaam's proprietary products.

Gross profit, which consists of revenues less cost of sales (primarily merchandise acquisition costs and in-bound freight) increased 41.7% to \$10.8 million for the first quarter of 2001 from \$7.6 million during the same period in 2000. As a percentage of revenue, gross profit increased to 61.3% in 2001 from 60.8% in 2000. This increase in gross profit percentage was also primarily the result of Gaiaam's continuing efforts to increase the number of proprietary products offered, on which Gaiaam has better margins than other products.

Selling and operating expenses, which consist primarily of sales and marketing costs, commission and fulfillment expenses, increased 40.8%, consistent with the revenue increase of 40.7%, to \$8.5 million for the three months ended March 31, 2001 from \$6.1 million for the same period in 2000. As a percentage of revenues, selling and operating expenses were 48.3% for the comparable periods in both 2001 and 2000.

Corporate, general and administrative expenses increased to \$1.6 million during the first quarter of 2001, from \$1.1 million during 2000, primarily as a result of Gaiaam's growth. As a percentage of revenues, general and administrative expenses decreased to 8.8% in 2001 from 8.9% in 2000.

Operating income, as a result of the factors described above, increased 61.1% to \$735,365 for the three months ended March 31, 2001, from \$456,359 for the comparable period in 2000.

Gaiaam recorded \$67,698 in other income for the three months ended March 31, 2001 compared to \$122,945 in other expense for the three month ended March 31, 2000.

Minority interest in net income of consolidated subsidiaries was \$82,645 during the first quarter of 2001, compared to \$4,992 during the first quarter of 2000.

Income tax provision increased to \$301,390 for the three months ended March 31, 2001 from \$125,130 for the comparable period in 2000. The effective tax rate on pre-tax income for both periods was 37.5%.

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Net income, as a result of the factors described above, increased 106.1% to \$419,028 for the three months ended March 31, 2001, from \$203,292 for the

three months ended March 31, 2000.

Three months ended March 31, 2000 compared to three months ended March 31, 1999

Revenues increased 32.3% to \$12.6 million for the three months ended March 31, 2000 from \$9.5 million during the three months ended March 31, 1999. Gaiam's internal growth rate was 26% for the first quarter of 2000, fueled primarily by the growth of its e-commerce business.

Gross profit, which consists of revenues less costs of sales, increased 35.4% to \$7.6 million for the first quarter of 2000 from \$5.6 million during the same period in 1999. As a percentage of revenue, gross profit increased to 60.8% in 2000 from 59.4% in 1999. This increase in gross profit percentage 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, increased 32.5%, corresponding to the revenue increase, to \$6.1 million for the three months ended March 31, 2000 from \$4.6 million for the same period in 1999. As a percentage of revenues, selling and operating expenses increased to 48.3% in 2000 from 48.2% in 1999.

Corporate, general and administrative expenses increased to \$1.1 million for the first quarter of 2000, compared to \$953,565 for the corresponding period in 1999. As a percentage of revenues, general and administrative expenses decreased to 8.9% in 2000 from 10.0% in 1999.

Operating income, as a result of the factors described above, increased 316.2% to \$456,359 for the three months ended March 31, 2000 from \$109,661 for the three months ended March 31, 1999.

Gaiam recorded \$76,295 in other expense during the first quarter of 2000, compared to other income of \$147,748 for the comparable period in 1999. During 1999, Gaiam recognized a gain on the sale of its marketable securities of \$223,014. Interest expense declined to \$46,650 for the three months ended March 31, 2000 from \$95,126 for the three months ended March 31, 1999, due to a reduction in debt levels.

Minority interest in net income increased to \$4,992 for the three months ended March 31, 2000 from a negative \$4,253 for the same period in 1999.

Income tax provision of \$125,130 for the three months ended March 31, 2000 as compared to a provision of \$60,369 for the three months ended March 31, 1999.

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Net income, as a result of the factors described above, increased 91.5% to \$203,292 for the three months ended March 31, 2000 from \$106,167 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 continues to evaluate possible investments in businesses, products and technologies, and plans to expand sales and marketing programs and conduct more aggressive brand promotions.

During April 2001, Gaiam entered into new loan agreements with Wells Fargo increasing Gaiam's borrowing capacity from \$6.5 million to \$14.9 million. The new revolving line of credit, which extends through June 30, 2003, allows borrowings up to \$10 million based upon the collateral value of Gaiam's accounts receivable and inventory held for resale. Wells Fargo has also provided Gaiam with a term loan in the amount of up to \$4.9 million, which matures on July 1,

2006, and allowed a \$537,228 term note assumed as part of the Real Goods merger to remain outstanding. Borrowings under these agreements are secured by a pledge of Gaiaam's assets, and bear interest at the lower of prime rate less 50 basis points or LIBOR plus 275 basis points. The Wells Fargo credit agreements contain various financial covenants and also prohibit Gaiaam from paying cash dividends to shareholders.

Gaiaam's operating activities provided net cash of \$1.2 million and \$2.1 million for the three months ended March 31, 2001 and 2000, respectively. Gaiaam's net cash provided by operating activities for 2001 arose primarily from an increase in cash generated from net income and depreciation and amortization. Gaiaam's net cash provided by operating activities for 2000 arose primarily from increases in cash generated from income and non-cash expenses, seasonal reductions in accounts receivable and deferred advertising costs, and an increase in payables associated with direct-to-consumer web site costs.

Gaiaam's investing and acquisition activities used cash of \$3.9 million for both for the three months ended March 31, 2001 and 2000. During the first quarter of 2001, Gaiaam completed its merger with Real Goods Trading Corporation, and also acquired all of the stock and net assets of Earthlings, Inc. and Self Care, Inc. for a total combined purchase price for both companies of \$3.8 million. The cash used by investing activities in 2000 arose primarily from costs associated with the direct-to-consumer website, and additional property and equipment purchases to support Gaiaam's increased business volume.

During the three months ended March 31, 2001, Gaiaam's financing activities provided \$490,290 million in cash, as borrowing under Gaiaam's line of credit agreement

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increased \$500,000. During the three months ended March 31, 2000, Gaiaam's financing activities used cash of \$22,405 for principal payments on capital leases.

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 (Lifestyles of Health and Sustainability) 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. We are not exposed to financial market risks from changes in foreign exchange rates and are only minimally impacted by changes in interest rates. Borrowing under our bank credit facility are at a variable rate of interest, and based on the current level of borrowings, we experience only modest changes in interest expense when market interest rates change. However, in the future, we may enter into transactions denominated in non-U.S. currencies or increase the level of our borrowings, which could increase our exposure to these market risks. We have not used, and currently do not contemplate using, any derivative financial instruments.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Gaiaam 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.

Item 5. Other Information.

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None.

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

a) Exhibits

None

b) Reports on Form 8-K.

On February 12, 2001, Gaiam filed a current report on Form 8-K reporting, under items 2 and 7, the acquisition of Real Goods Trading Corporation, and incorporating by reference to Gaiam's registration statement on Form S-4 dated December 6, 2000 certain financial statements of Real Goods and certain pro forma financial information.

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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 14, 2001

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

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

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