

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 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, CO 80021
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(303) 222-3600
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
CLASS A COMMON STOCK, \$.0001 PAR VALUE

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 Exchange Act
of 1934 during the preceding 12 months (or for such shorter period that the
Registrant was required to file such reports) and (2) has been subject to
such filing requirements for the past 90 days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained,
to the best of the Registrant's knowledge, in a definitive proxy or
information statement incorporated by reference in Part III of this
Form 10-K or any amendment to this Form 10-K

The aggregate market value of the voting and non-voting common equity held
by non-affiliates of the Registrant was approximately \$33,368,080 as of
March 21, 2001, based upon the closing price on the Nasdaq National Market
reported for such date. As of March 21, 2001, 5,955,578 shares of the
Registrant's \$.0001 par value Class A common stock and 5,400,000 shares of
the Registrant's Class B common stock were outstanding. Shares of Common
Stock held by each executive officer and director and by each person who
beneficially owns more than 5% of the outstanding Common Stock has been
excluded in that such person may, under certain circumstances, be deemed to
be affiliates. This determination for executive officer or affiliate status
is not necessarily a conclusive determination for other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or portions thereof) are incorporated by reference
into the Parts of this Form 10-K noted:

Part III incorporates by reference from the definitive proxy statement for
the Registrant's 2001 Annual Meeting of Stockholders to be filed with the
Commission pursuant to Regulation 14A not later than 120 days after the end
of the fiscal year covered by this Form.

Gaiam, Inc.

Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2000

Part I

- Item 1. Business
- Item 2. Properties
- Item 3. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders

Part II

- Item 5. Market for Registrant's Common Equity and Related Stockholder Matters
- Item 6. Selected Financial Data
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk
- Item 8. Financial Statements and Supplementary Data
- Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Part III

- Item 10. Directors and Executive Officers of the Registrant
- Item 11. Executive Compensation
- Item 12. Security Ownership of Certain Beneficial Owners and Management
- Item 13. Certain Relationships and Related Transactions

Part IV

- Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

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 included, 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.

PART I

ITEM 1. BUSINESS

GAIAM

Gaiam is a multi-channel lifestyle company that markets to customers who value personal development, healthy living and the environment. We are dedicated to providing a broad selection of high quality information, goods and services in a customer-friendly manner using a multi-channel approach through catalogs, e-commerce, business to business channel, media broadcasts and 21,000 retail points including leading names such as Discovery, Borders, Musicland, Dicks, Amazon.com, Target and Whole Foods. We provide customers with natural and healthy alternatives to traditional products.

We strive to serve consumers who live a lifestyle that places a high value on promoting healthy living, personal development and the quality of the Earth's environment, recognizing that our personal health and the health of our children depend on it. We offer to consumers an opportunity to make purchasing decisions for goods and services based on these values, in addition to the traditional criteria of price and performance.

OUR HISTORY

Gaiam was founded in Boulder, Colorado in 1988 to support "Conscious Commerce", the practice of making purchasing decisions based on lifestyle and values. In 1995, we began to expand our business nationally. In 1996, Gaiam made a large investment in infrastructure and operating systems to support rapid growth. In 1998, a team of key executives joined Gaiam to help facilitate future growth.

OUR CORE VALUES

Gaiam's approach to business is based on our core values:

- . We emphasize integrity in all of our relationships.

- . We stress a triple bottom line: profits - people - planet.
- . We value the environment as a base to personal health and view all resources as precious assets.
- . We understand living our beliefs is more than just the right thing to do; it is the only path to take.
- . We strive to motivate every person to make a positive difference in their lives and in our world by the simple choices they make every day.

OUR MARKET - THE LOHAS INDUSTRY

The Lifestyles of Health and Sustainability (LOHAS) industry was \$230 billion in the year 2000 in the United States alone, according to Natural Business Communications. The industry consists of five main sectors:

- . Sustainable Economy is comprised of renewable energy, energy conservation, recycling and recycled goods, environmental management services, sustainable manufacturing processes and related services and information.
- . Healthy Living includes natural and organic foods, dietary supplements, personal care products and related information and services.
- . Alternative Healthcare includes health and wellness solutions and alternative health practices. The Journal of American Medical Association conducted a study in 1998 that concluded 83 million Americans practiced some sort of alternative healthcare in 1997 accounting for \$27 billion, mostly out of pocket expenses.
- . Personal Development includes solutions, information, products and experiences relating to mind, body and spiritual development. Companies offering yoga and other stress reducing fitness alternatives to their employees are enhancing this sector. A survey by Wall Street Journal found that 23% of adults surveyed did yoga, meditation or other similar practices.
- . Ecological Lifestyles include environmentally friendly cleaning and household products, green and organic cotton bedding and clothing, and eco-tourism. According to Natural Business Communication, this may be the fastest growing segment of the industry as business-to-business industries and consumer services (such as the hospitality industry) are pressured by consumers to incorporate these products and services into their business.

Gaiam participates in all five segments of the LOHAS industry.

OUR DISTRIBUTION CHANNELS

- . Catalogs/Print Advertising

Gaiam offers a large variety of LOHAS products directly to the consumer through our catalogs and through consumer lifestyle publications such as Self, Shape and Yoga Journal magazines. We produce quality catalogs in all segments of LOHAS utilizing sub-brands such as Gaiam Harmony, Gaiam Living Arts, Gaiam Innerbalance, Gaiam Real Goods and Gaiam Jade Mountain. We circulate catalogs to the 1.5 million customers in our database on a regular basis.

For the benefit of our direct customers, we provide unconditional return guarantees, toll-free telephone ordering, an in-house, well-trained customer service staff, and on-hand inventory to support over 90% of our in-stock orders. It is our practice to ship each order no later than the next business day.

- . Retailers

Gaiam currently sells products through 21,000 retail points including lifestyle stores such as Discovery Stores and The Walking Company, book stores such as Borders and Barnes and Noble, mass merchants such as Target, sporting goods stores such as Dicks and Galyans, women's beauty stores such as Ulta and Origins, specialty stores such as Pea in the Pod and Dandelion, on-line retailers such as Amazon.com and natural food retailers such as Whole Foods. We have recently launched our integrated branded lifestyle concepts in selected retail establishments.

Gaiam is expanding proprietary product offerings to our retailers.

- . E-Commerce

We believe that our business is also well suited to Internet commerce. The use of many of our products is enhanced by extensive product education and information that we are making available online. The online environment offers wider shelf space and the capacity to present consumer information

less expensively. In addition, many Internet products and information are not widely found in conventional stores.

We have upgraded our website and technology systems to create a platform that takes advantage of the unique characteristics of online retailing. We currently have approximately 10,000 SKU's on our website. Our online gross profit average margin is over 55%, making our Internet channel an attractive business model.

Our goal is to grow this segment of our customers and to educate them about their own ability to affect positive change through purchases that will result in improvements to the environment and their well being - and thereby demonstrating to them that their choices can "make a difference."

- . Corporate Supplier

Gaiam provides products and services to businesses that desire healthy and natural alternatives, which range from organic cotton robes and bedding to hospitals and hospitality chains to solar powered safety and security systems to the Dallas Airport. Gaiam is developing a line of promotional products in organic cotton that includes t-shirts, sweatshirts, caps, bags, etc. for customers such as Mercedes Benz and Aveda.

Gaiam also has a design and consulting service for corporate accounts that assesses their energy needs and makes recommendations for more efficient solutions. We have consulted with clients such as The White House, The Vatican, Sony, Disney, NASA and Discovery Channel. We expect this service be in considerable demand with the ongoing energy crisis in California.

- . Media

Gaiam produces information and programming targeted to consumers who value healthy and environmental lifestyles. Currently, thirteen of our programs are broadcast domestically and five internationally. Our programs are also available in over 500,000 hotel rooms in the U.S. and 200,000 in Canada through on demand programming available in such hotels as Marriott, Hyatt, Westin, Hilton, Radisson and Four Seasons.

Gaiam also publishes programs on DVD and video and co-publishes books and programming on sustainable living as well as over 100 music titles.

OUR COMPETITIVE STRENGTHS

We believe the following factors have contributed to our growth and success:

- . Focus on Large Market

Gaiam believes that the expansion and fast growth of the LOHAS industry is being fueled by Conscious Commerce, a trend of making purchasing decisions based on lifestyle and personal values, driven by a growing population segment called Cultural Creatives. A study published by the Institute of Noetic Sciences in 1996 coined the term "Cultural Creatives." Paul Ray, who authored this study, is now a member of our board of directors. American Demographics (February 1997) estimates that this growing population segment, which has in common the values of environmental awareness, healthy lifestyles and personal development, numbered 44 million adults in the United States alone in 1996 and according to Mr. Ray, grew to 50 million in 1998. We believe the growth of these consumers is evidenced also by the growth of our customer base. Cultural Creatives tend to be well-educated consumers, with a median age of 42, a 60/40 women-to-men ratio and an average annual income of \$52,000.

Gaiam targets Cultural Creatives and we believe that our customer demographics and loyalty contribute significantly to our high average order value of approximately \$90 for the year ended December 31, 2000, as compared to a lower average for the direct marketing industry and the e-commerce sector.

See Note 1 to Gaiam's Consolidated Financial Statements for information about our international sales.

- . Experienced Executive Team

Gaiam has an experienced team of corporate managers. Our founder and Chief Executive Officer, Jirka Rysavy, was the founder and Chief Executive Officer of Corporate Express, Inc., which he built to a Fortune 500 company. He was also the founder and CEO of Crystal Market, Inc., which was sold to become the first Wild Oats Markets store. Our President and Chief Operating Officer, Lynn Powers, has over 15 years of senior management experience in the retail industry as a Senior Vice President of Merchandising, Marketing and Strategic Planning for Miller's Outpost, which she helped to grow from a \$25 million startup to over \$500 million in revenues. Our Chief Information Officer, Pavel Bouska, was a member of the founding team and an officer of Corporate Express for over 10 years,

serving in various positions, including Chief Information Officer and Vice President of Information Systems.

- . Distinctive, Branded Products

Gaiam offers information, proprietary products and services under its brand name. These products appeal to Gaiam's well-educated customers and are not widely available in conventional stores. These products are designed to enhance customers' lifestyles and experiences and provide healthy, natural solutions while being eco-friendly and promoting a sustainable economy. Private brand product sales were approximately 37% in year 2000, up from 24% in 1999 and 10% in 1998. Because we use a multi-channel approach to our business we are able to leverage our product development costs across all channels of our business.

- . Exceptional Customer Service

Gaiam maintains a customer-focused approach at all stages of its business to build long-term customer relationships based on loyalty and trust. Gaiam stands by its advertised "no-risk guarantee" by providing its customers a full refund of the purchase price for products that are returned any time, for any reason. We believe that this guarantee, coupled with the quality of our customer service personnel, encourages greater customer loyalty and repeat sales. We ensure that we have on hand inventory to support 90% of in-stock orders. It is our practice to ship each order no later than the next business day.

According to Jupiter Communications, 90% of online customers prefer human interaction when they require customer service. Our in-house customer service department includes product specialists, who have specific product knowledge and assist customers in selecting products and solutions that meet their needs, design, price and style criteria. Gaiam also enhances its customer service through initiatives such as extensive product training for customer service representatives. We believe that, by offering exceptional customer service, we encourage repeat purchases by our customers, enhance our brand identity and reputation and build stronger relationships with our customers.

- . Established Infrastructure

Gaiam has invested in its physical facilities, technology and information systems. In 2000, we expanded our distribution to a 208,100 square foot fulfillment center near Cincinnati, Ohio, a facility that is in the central United States and conveniently located to hubs for major shipping companies. This location allows us to achieve shipping cost efficiency to most locations across the Continental United States. It is located within 30 minutes of both UPS and Airborne hubs. We also installed our supply chain management information system to support virtually all segments of our business, including, merchandising, customer database management and marketing, order processing, fulfillment, inventory management, customer service and financial reporting. This investment reduced our costs of fulfillment by providing an integrated system that reduces labor costs and time needed to procure inventory and fill orders. This existing infrastructure is allowing us to integrate acquired businesses in an efficient and cost-effective manner.

- . Operating Model

Our business structure is designed to provide high operating leverage on the revenue growth and enable each Gaiam distribution channel to achieve individual sales growth, while realizing cost savings from the combined enterprise. The managers of our channels retain responsibility for merchandising and creative presentation. Gaiam provides strategic direction, technology, financial resources and administrative services, as well as marketing, customer service, fulfillment, purchasing and sourcing, thus leveraging our current infrastructure in a highly scaleable model.

OUR OPERATING STRATEGIES

- . Strengthen our Brand

We are striving to establish the Gaiam brand as an authority in the LOHAS industry. We plan to strengthen the Gaiam brand by increasing marketing efforts, strengthening relationships with traditional and e-commerce retailers, and increasing the breadth of our proprietary product and audio, video and digital informational offerings while maintaining our high level of customer service. Our products, services and information will generally bear the Gaiam symbol.

We believe that the expanding demand by consumers for eco-friendly and natural products will permit us to obtain products in greater volume and, in turn, offer the products at lower prices than might otherwise be available. As we are able to lower prices in this manner, we expect to attract additional customers.

- . Capitalize on our Multi-channel Approach

We intend to make purchasing quality, natural and healthy lifestyle products from us convenient regardless of the channel customers prefer. In our direct business, we are open 24 hours a day, and shopping for our products does not need to require a trip to a store. We offer our entire selection of products on our Internet site. We cross-market between our catalogs and our e-commerce, introducing our customers to all aspects of LOHAS. A direct customer coming to us for a yoga videotape will also be exposed to our organic cotton performance wear line.

In our business-to-business sector, we are expanding our retail exposure, which is currently at 21,000 retail points, and building store-within-store concepts in Whole Foods Markets, Discovery Stores, Dicks and Galyans. We are expanding into women's beauty stores such as Ulta and Origins, sporting goods chains such as Dicks and Galyans, and bed and bath specialty stores such as Bed Bath and Beyond. This expansion at the retail level increasingly allows our customers to find Gaiam products no matter how or where they shop.

Our media, especially TV broadcast, is also an excellent opportunity for Gaiam to strengthen its brand. We partner with experts in LOHAS to produce proprietary content that we leverage through TV broadcast, on demand programming as well as audio, video and digital products, which we market through our consumer and B-to-B channels.

- . Expand our Proprietary Products

We grew our proprietary products from 24% of our business in 1999 to 37% of our business in 2000. These products carry a higher margin and distinguish us from many of our competitors. We now offer over 2000 SKUs of proprietary product that range from audio and video tapes to organic cotton baby clothes. We are expanding our supply chain with overseas suppliers in Europe and South America. Our merchants are continuing to develop and source new product in all aspects of LOHAS. We leverage our development costs over all sales channels.

- . Offer Quality, Convenience and Selection

We ship products directly to the customer's home or office. We believe that customers may buy more natural and healthy lifestyle products from us because they can get the information and advice they require, have more hours to shop, can act immediately on a purchase impulse and can locate products that may be hard-to-find. Because online and catalog shopping are not tied to a geographic location, we can deliver a wide selection of natural and healthy lifestyle products to customers in rural or other locations that cannot support a large-scale LOHAS products retail store.

- . Develop Business-to-Business Opportunities

Gaiam is focused on increasing its sales to other businesses that have a need for sustainable or natural and healthy lifestyle products and services. These businesses include retailers, broadcasters, governmental agencies, hospitality companies, spas and resorts, health care providers, as well as industrial companies. We believe that the Gaiam brand and product mix are well suited to these businesses. As companies prepare to market to consumers in the LOHAS industry, we believe many will desire to partner with a lifestyle authority such as Gaiam. We believe that the expertise and knowledge we have and can develop in the LOHAS industry will make Gaiam one of the information sources of choice for businesses that wish to service the LOHAS industry.

- . Complement our Existing Business with Selective Strategic Acquisitions

Even though our strategy is not dependent on acquisitions, we will consider strategic acquisitions in the LOHAS industry that complement our existing business, especially companies with a strong brand identity and with customer and product information databases that augment our databases. We believe that significant acquisition opportunities exist and our willingness to retain existing operating management makes us an

attractive acquiring party. Gaiam generally allows the acquired company's management team to retain responsibility for front-end business functions such as creative presentation and marketing, while consolidating operational functions under the Gaiam organization to realize economies of scale.

OUR BUSINESS SEGMENTS

We separate our business into two business segments: Direct-to-Consumer, which includes catalogs, print advertising, and e-commerce; and Business-to-Business, which includes sales to retailers, corporations and our media channel.

We are in the process of significantly increasing our sales to other businesses that have a need for eco-friendly products and services or natural and healthy lifestyle products. Business-to-Business revenues were 13% of 1998 revenues, 24% of revenues for 1999 and 28% of revenues for

2000. See Note 12 to our Consolidated Financial Statements for further information on our segments.

OUR INTELLECTUAL PROPERTY

Gaiam, Gaiam.com, and various product names are subject to trademark or pending trademark applications of Gaiam or a Gaiam company. We also currently hold various web domain names relating to our brand, including www.gaiam.com. We believe these trademarks and domain names are

significant assets to our business.

OUR COMPETITIVE POSITION

We believe that the LOHAS industry is characterized by fragmented supplier and distribution networks, and we are not aware of a dominant leader. Gaiam's goal is to establish itself as the industry leader.

Our business is evolving and competitive. Larger, well-established and well-financed entities may acquire, invest in or form joint ventures with our competitors. Many of such entities are larger, have longer operating histories and have greater financial and marketing resources than we have. Increased competition from these or other competitors could reduce our revenue and profits. In addition, the smaller businesses we compete against may be able to more effectively personalize their relationships with customers.

We expect industry consolidation to increase competition. Our competitors may adopt aggressive pricing or inventory policies, which could result in reduced operating margins, loss of market share and a diminished brand franchise.

We believe the principal competitive factors in the LOHAS market are distinctiveness of products and services, authenticity of information, quality of product, brand recognition, and price. We believe we compete favorably on the relevant factors as evidenced by our sales growth.

OUR EMPLOYEES

As of March 15, 2001, Gaiam and the Gaiam companies employed approximately 295 persons. None of our employees is covered by a collective bargaining agreement.

REGULATORY MATTERS

An increasing number of laws and regulations pertaining to the Internet exist. In addition, a number of legislative and regulatory proposals are under consideration by federal, state, local and foreign governments and agencies. Laws or regulations may be adopted with respect to the Internet relating to liability for information retrieved from or transmitted over the Internet, online content regulation, user privacy, taxation and quality of products and services. Moreover, it may take years to determine whether and how existing laws such as those governing such issues as intellectual property ownership and infringement, privacy, libel, copyright, trade mark, trade secret, obscenity, personal privacy, taxation, regulation of professional services, regulation of medical devices and the regulation of the sale of other specified goods and services apply to the Internet and Internet advertising. New legislation or regulations, or any unanticipated application or interpretation of existing laws, may decrease the growth in the use of the Internet, which could in turn decrease the demand for our products,

information and services, increase our cost of doing business or otherwise have a material adverse effect on our business, results of operations and financial condition.

Further, several telecommunications carriers have requested the Federal Communications Commission ("FCC") to regulate telecommunications over the Internet. Due to the increasing use of the Internet and the burden it has placed on the current telecommunications infrastructure, telephone carriers have requested the FCC to regulate Internet service providers and online service providers and impose access fees on those providers. If the FCC imposes access fees, the costs of using the Internet could increase dramatically. This could result in the reduced use of the Internet as a medium for commerce, which could materially adversely affect our business.

There are a number of different bills under consideration by Congress and various state legislatures that would restrict disclosure of consumers' personal information, which may make it more difficult for Gaiam to generate additional customers, and restrict unsolicited electronic mail or printed materials. Although Gaiam believes it is generally in compliance with current laws and regulations and that these laws and regulations have not had a significant impact on our business to date, it is possible that existing or future regulatory requirements will impose a significant burden on us.

The Gaiam companies generally collect sales taxes only on sales to

residents of the state in which Gaiaam is headquartered, where orders are fulfilled or where Gaiaam has a location. A number of legislative proposals have been made at the federal, state and local level, and by foreign governments, that would impose additional taxes on the sale of goods and services over the Internet and certain states have taken measures to tax Internet-related activities. Although Congress placed a moratorium on state and local taxes on Internet access or on discriminatory taxes on electronic commerce, existing state or local laws were expressly excepted from this moratorium. Further, once this moratorium is lifted, some type of federal and/or state taxes may be imposed upon Internet commerce. Legislation or other attempts at regulating commerce over the Internet may substantially impair the growth of commerce on the Internet and, as a result, adversely affect our opportunity to derive financial benefit from these activities.

Our business is also subject to a number of other governmental regulations, including the Mail or Telephone Order Merchandise Rule and related regulations of the Federal Trade Commission. These regulations prohibit unfair methods of competition and unfair or deceptive acts or practices in connection with mail and telephone order sales and require sellers of mail and telephone order merchandise to conform to certain rules of conduct with respect to shipping dates and shipping delays. We are also subject to regulations of the U.S. Postal Service and various state and local consumer protection agencies relating to matters such as advertising, order solicitation, shipment deadlines and customer refunds and returns. In addition, merchandise imported by Gaiaam is subject to import and customs duties and, in some cases, import quotas.

SEASONALITY

See the Quarterly and Seasonal Fluctuations section of Item 7., Management's Discussion and Analysis of Financial Condition and Results of Operations, for information pertaining to the seasonal aspects of our business.

ITEM 2. PROPERTIES

Our principal executive offices are located in Boulder County, Colorado. Our main fulfillment center is located in the Cincinnati, Ohio area. This facility houses most of our fulfillment functions. We selected the Cincinnati site after considering the availability and cost of facilities and labor, proximity to major highways, air delivery hubs and support of local government of new businesses. We also believe that Cincinnati is ideal for providing the lowest cost shipping available from a single central point to a customer base that conforms to the overall U.S. population. Approximately 90% of our orders are filled and shipped from the Cincinnati facility. The balance is shipped directly from suppliers.

The following table sets forth certain information relating to our primary facilities, all of which are leased:

<TABLE>

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Primary Locations	Size	Use	Lease Expiration
Boulder County, CO	32,000 sq. ft.	Headquarters and customer service	March 2002
Cincinnati, OH	208,100 sq. ft.	Fulfillment center	March 2006
Venice, CA	9,000 sq. ft.	Creative staff offices	July 2005

We have options to renew our headquarters lease. On March 1, 2000, due to the growth of our operations, we entered into a new fulfillment center lease, which expanded our facility to 208,100 sq. ft. This site holds our warehousing and distribution services group. We believe our facilities are adequate to meet our current needs and that suitable additional facilities will be available for lease or purchase when, and, as we need it.

The Gaiaam Yoga Center, purchased in December 2000, is situated on 160 acres in Paulden, Arizona.

ITEM 3. LEGAL PROCEEDINGS

Gaiaam is not a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were brought to a vote of our stockholders in the fourth quarter of the fiscal year ended December 31, 2000.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers and directors, their respective ages as of December 31, 2000 and their positions are as follows:

<TABLE>
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NAME	AGE	POSITION
Jirka Rysavy	46	Founder, Chairman of the Board and Chief Executive Officer
Lynn Powers	51	President, Chief Operating Officer and Director
Pavel Bouska	46	Executive Vice President and Chief Information Officer
Barnet M. Feinblum (1) (2)	53	Director
Barbara Mowry (1) (2)	52	Director
John Mackey	47	Director
Paul H. Ray (1) (2)	61	Director

- (1) Member of the Compensation Committee
(2) Member of the Audit Committee

JIRKA RYSAVY - Founder, Chairman and Chief Executive Officer of Gaiam. He has been Chairman since Gaiam's inception and became the full-time Chief Executive Officer in December 1998. In 1986, Mr. Rysavy founded Corporate Express, Inc., which, under his leadership, grew to become a Fortune 500 company supplying office and computer products and services. He was its Chairman and Chief Executive Officer until September 1998. Mr. Rysavy also founded and served as Chairman and Chief Executive Officer of Crystal Market, a health foods market, which was sold in 1987 and became the first Wild Oats Markets store. Mr. Rysavy is also a director of Whole Foods Market.

LYNN POWERS - President, Chief Operating Officer and a director of Gaiam since February 1996. From 1992 to 1996, she was Chief Executive Officer of La Scelta, an importer of natural fiber clothing products. Before that, Ms. Powers was Senior Vice President Marketing/Strategic Development and Vice President Merchandising of Miller's Outpost, a specialty retailer.

PAVEL BOUSKA - Executive Vice President and Chief Information Officer since March 1999. He served as a director of Gaiam from 1991 until August 1999. Prior to joining Gaiam, from June 1988 to March 1999, Mr. Bouska was an officer and one of the founding members of Corporate Express, serving in various positions, including Chief Information

Officer and Vice President Information Systems, responsible for system development, information technology, operations, systems conversions and business consolidations. Prior to joining Corporate Express, he was project leader for Software Design & Management, a German software company subsequently acquired by Ernst & Young.

BARBARA MOWRY - Director since October 1999. From November 1997 until February 2001, Ms. Mowry was the President and Chief Executive Officer of Requisite Technology, a business-to-business e-commerce company specializing in the creation and management of electronic content and catalogs. Prior to joining Requisite Technology, Ms. Mowry was an officer of two Fortune 500 companies, Telecommunications, Inc. (cable television) from 1995 to 1997, and UAL, Inc. (airline) from 1983 to 1990. In 1990, Ms. Mowry founded, and until 1995 served as Chief Executive Officer of The Mowry Company, a relationship marketing firm focusing on the development of customer relations for businesses.

JOHN MACKEY - Director since September 2000. Mr. Mackey has been the Chairman and Chief Executive Officer of Whole Foods Markets, Inc., the world's largest natural food retailer, since he co-founded the company 20 years ago. Mr. Mackey is also a director of Jamba Juice.

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

PAUL H. RAY - Director since October 1999. Mr. Ray is a senior partner in Integral Partnership, consulting firm specializing in Cultural Creative topics. From November 1986 until December 2000, he was Executive Vice President of American LIVES, Inc., a market research and opinion-polling firm, since November 1986. Prior to joining American LIVES, Mr. Ray was Chief of Policy Research on Energy Conservation at the Department of Energy, Mines and Resources of the Government of Canada from 1981 to 1983. From 1973 to 1981, Mr. Ray was Associate Professor of Urban Planning at the University of Michigan. He is the author of "The Integral Culture Survey," which first identified the Cultural Creatives subculture.

Each director serves for a one-year term. Each officer serves at the discretion of the Board of Directors. There are no family relationships among any of the directors or officers of Gaiam.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Stock Price History

Gaiam's Class A common stock has been quoted on the NASDAQ under the symbol "GALA" since the Gaiam's initial public offering on October 29, 1999. On March 21, 2001, the Company had 9,287 stockholders of record and 5,955,578 shares of \$.0001 par value Class A common stock outstanding, and one stockholder and 5,400,000 shares of \$.0001 par value Class B common stock outstanding.

The following table sets forth certain sales price and trading volume data for the Company's Class A common stock for the period indicated:

<TABLE>
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	High Bid	Average Daily		Volume
		Low Bid	Close	
<S>	<C>	<C>	<C>	<C>
Fiscal 2000:				
First Quarter	\$ 19	\$13 59/64	\$ 17 1/2	11,057
Second Quarter	\$24 11/16	\$ 14	\$ 18 1/2	12,383
Third Quarter	\$ 19	\$ 15	\$ 18 5/16	11,176
Fourth Quarter	\$ 18 1/4	\$ 14 5/8	\$ 15 7/16	8,224
Fiscal 1999 - Fourth Quarter Commencing October 29, 1999	\$ 18 1/4	\$ 5 3/8	\$ 15 7/8	58,952

</TABLE>

Dividend Policy

Gaiam has never declared or paid any cash dividends on its capital stock. Gaiam currently intends to retain earnings, to support its growth strategy and does not anticipate paying cash dividends in the foreseeable future. In addition, our bank credit agreement prohibits payment of any dividends to our shareholders.

Sales of Unregistered Securities

During 2000, we acquired a yoga props company and a 70% interest in an organic clothing manufacturer. Total consideration paid for these acquisitions was approximately \$315,000 in cash and 21,243 shares of Class A common stock. These shares were issued on February 29, 2000 (14,000 shares) and June 20, 2000 (7,243 shares). The shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

The selected statement of operations for the years ended December 31, 1998, 1999 and 2000 and balance sheet data as of December 31, 1999 and 2000 set forth below are derived from Gaiam's audited consolidated financial statements. The audited consolidated financial statements include statements of operations for the years ended December 31, 1998, 1999 and 2000, and balance sheets as of December 31, 1999 and 2000. These financial statements appear elsewhere in this Form 10-K. The selected statement of operations for the years ended December 31, 1996, and 1997 and balance sheet data as of December 31, 1996, 1997 and 1998 set forth below are derived from Gaiam's audited consolidated financial statements. The historical operating results are not necessarily indicative of the results to be expected for any other period. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Gaiam's consolidated financial statements and related notes, included elsewhere in this Form 10-K.

<TABLE>
<CAPTION>

SELECTED FINANCIAL DATA
(Amounts in thousands, except per share data)

	Year Ended December 31,				
	2000	1999	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA					
Net revenues	\$60,588	\$45,725	\$30,739	\$19,898	\$14,801
Cost of goods sold	23,793	18,176	13,174	8,462	6,762

Gross profit	36,795	27,549	17,565	11,436	8,039
Selling, operating, general and administrative expenses	32,367	25,425	16,580	12,002	10,471
Operating income (loss)	4,428	2,124	985	(566)	(2,432)
Other income (loss) (1)	(283)	606	388	1,583	2,984
Income before income taxes and Minority interest	4,145	2,730	1,373	1,017	552
Income taxes	1,556	1,063	251	363	212
Minority interest	(60)	(51)	262	-	-
Net income	\$ 2,649	\$ 1,718	\$ 860	\$ 654	\$ 340
Net income per share:					
Basic	\$0.24	\$0.20	\$0.11	\$0.08	\$0.04
Diluted	\$0.23	\$0.19	\$0.11	\$0.08	\$0.04
Shares outstanding:					
Basic	10,858	8,785	8,073	8,040	8,040
Diluted	11,525	9,119	8,119	8,040	8,040

<TABLE>
<CAPTION>

	December 31,				
	2000	1999	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA					
Cash	\$ 8,579	\$ 3,877	\$ 1,410	\$ 1,612	\$ 380
Securities available-for-sale (2)	-	-	1,634	4,828	56
Working capital (deficiency)	15,269	5,911	(81)	5,226	(1,838)
Total assets	48,477	27,260	16,677	10,774	6,256
Long-term debt (net of current maturities)	5,770	2,109	299	42	89
Stockholders' equity (2)	18,111	14,951	3,661	4,736	920

- (1) Other income in 1996, 1997, 1998 and 1999 primarily reflects income from sale of securities available-for-sale.
(2) Securities valued at fair market value in 1996, 1997 and 1998.

ITEM 7. 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 consolidated financial statements and related notes included elsewhere in this document.

Overview

Gaiam is a multi-channel lifestyle company catering to customers who value personal development, healthy living and the environment. Gaiam was incorporated in Colorado in 1988. In 1995, Gaiam began to expand nationally and make acquisitions. From 1996 to 2000, our revenues increased from \$14.8 million to \$60.6 million, representing a compound annual growth rate of approximately 42.2%.

Gaiam's business model is evolving as evidenced by the increase in the percentage of our revenues attributable to our business-to-business segment and the launch of our e-commerce channel. During 1998, business-to-business revenues accounted for approximately 13% of all revenues, while in 2000, this segment's revenues increased to approximately 28% of total revenue. Although Gaiam has used acquisitions to grow its business, internal growth remained strong at 24% during 2000, up from 18% in 1999. In addition, Gaiam's gross margin continued to increase as a result of developing more proprietary merchandise, on which we have better margins, and negotiating better pricing from our vendors due to volume discounts.

Results of Operations

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

<TABLE>
<CAPTION>

	For the Year Ended December 31,		
<S>	<C>	<C>	<C>
	2000	1999	1998
Net revenue	100.0%	100.0%	100.0%
Cost of goods sold	39.3%	39.8%	42.9%

Gross profit	60.7%	60.2%	57.1%	
Expenses:				
Selling and operating	45.1%	48.8%	46.1%	
Corporate, general and administrative	8.3%	6.7%	7.8%	
Total expenses	53.4%	55.5%	53.9%	
Income (loss) from operations	7.3%	4.7%	3.2%	
Other income (expense), net	-0.4%	1.3%	1.3%	
Income before income taxes and minority interest		6.9%	6.0%	4.5%
Provision for income taxes	2.6%	2.3%	0.8%	
Minority interest in net income of consolidated subsidiary, net of tax	-0.1%	-0.1%	0.9%	
Net income	4.4%	3.8%	2.8%	

</TABLE>

Year ended December 31, 2000 compared to year ended December 31, 1999

Revenues increased 32.5% to \$60.6 million in 2000 from \$45.7 million in 1999. Gaiam's internal growth rate was 24%, fueled primarily by the growth in sales to national retail chains and e-commerce business. Business-to-business revenues grew 50.3% to \$16.8 million in 2000 from \$11.2 million in 1999.

Gross profit, which consists of revenues less cost of sales (primarily merchandise acquisition costs and in-bound freight), increased 33.6% to \$36.8 million in 2000 from \$27.5 million during 1999. As a percentage of revenue, gross profit increased to 60.7% in 2000 from 60.2% in 1999. This was primarily attributable to the growth of Gaiam's proprietary product offerings, on which we have better margins, which constituted 37% of sales in 2000, up from 24% in 1999.

Selling and operating expenses, which consist primarily of sales and marketing costs, commissions and fulfillment expenses, increased 22.3%, which is less than the revenue increase of 32.5%, to \$27.3 million in 2000 from \$22.3 million in 1999. As a percentage of revenues, selling and operating expenses decreased to 45.1% in 2000 from 48.8% in 1999.

Corporate, general and administrative expenses increased to \$5.1 million for 2000 from \$3.1 million in 1999. As a percentage of revenues, general and administrative expenses increased to 8.3% in 2000 from 6.7% in 1999, primarily as a result of an increase in depreciation expense and the expenses associated with a public company.

Operating income, as a result of the factors described above, increased 108.4% to \$4.4 million in 2000 from \$2.1 million in 1999.

Gaiam recorded \$73,947 in other expense during 2000, compared to other income of \$971,159 in 1999. During 1999, Gaiam recognized gains on the sales of its marketable securities of \$2.5 million. Net interest expense declined to \$209,167 in 2000 from \$365,294 in 1999, primarily as a result of interest income generated in the third and fourth quarters of 2000.

Minority interest net income was \$59,706 in 2000 and \$50,858 during 1999.

Income tax provision increased to \$1.6 million in 2000, an effective tax rate of 37.5% on pre-tax income, from \$1.0 million in 1999.

Net income, as a result of the factors described above, increased 54.2% to \$2.6 million in 2000 from \$1.7 million during 1999.

Year ended December 31, 1999 compared to year ended December 31, 1998

Revenues increased 48.8% to \$45.7 million in 1999 from \$30.7 million in 1998. This revenue growth was primarily attributable to acquisitions. Gaiam's internal growth rate was 18% for fiscal 1999. Business-to-business revenues grew 49.4% to \$11.2 million in 1999 compared to \$7.5 million in 1998. The commencement of e-commerce sales in September 1999 resulted in \$2.1 million of revenues, with \$2.0 million recognized during the fourth quarter.

Gross profit, which consists of revenues less cost of sales, increased 56.8% to \$27.5 million in 1999 from \$17.6 million in 1998. As a percentage of revenues, gross profit increased to 60.2% in 1999 from 57.1% in 1998. This was primarily attributable to increases in sales of proprietary or private-labeled branded products, on which Gaiam has better margins than other products, and continued better pricing from vendors due to increased volume.

Selling and operating expenses, which consist primarily of sales and

marketing costs, commissions and fulfillment expenses, increased 57.5% to \$22.3 million in 1999 compared to \$14.2 million in 1998. As a percentage of revenues, selling and operating expenses increased to 48.8% in 1999 from 46.1% in 1998, as a result of the increased emphasis on revenue growth, particularly in the business-to-business and e-commerce sectors, and the sourcing, development and branding of our proprietary products.

Corporate, general and administrative expenses increased to \$3.1 million in 1999 compared to \$2.4 million in 1998. As a percentage of revenues, general and administrative expenses decreased to 6.7% in 1999 from 7.8% in 1998.

Operating income, as a result of the factors described above, increased 115.7% to \$2.1 million from 1999 from \$984,843 in 1998.

Other income, comprised primarily of gains on sales of marketable securities and interest expense, increased to \$605,865 in 1999 from \$388,491 in 1998. This change is primarily due to an increase in the number of securities sold during 1999, and was partially offset by higher interest expense due to borrowings and other extraordinary expenses associated with our initial public offering, the acquisition of the minority interest in Living Arts, and expenses associated with moving our warehousing and distribution center.

Minority interest expense decreased to a negative \$50,858 for 1999 compared to \$261,598 in 1998. The majority of this amount represents our former minority partner's one-third interest in the Living Arts losses, net of tax. During 1998, minority interest of \$261,598 represented the 33% Living Arts minority interest, net of tax, for the period September 14, 1998 through December 31, 1998.

Income tax provision grew to \$1.0 million in 1999, as compared to \$251,955 in 1998. The decrease in the effective tax rate to 18.4% of pre-tax net income for 1998 was primarily due to a one-time tax benefit related to the 1998 settlement of a Living Arts legal judgment incurred prior to Gaiam's ownership.

Net income, as a result of the factors described above, increased 99.9% to \$1.7 million for 1999 from \$859,781 for 1998.

Quarterly and Seasonal Fluctuations

The following table sets forth our unaudited quarterly results of operations for each of the quarters in 2000 and 1999. In management's opinion, this unaudited financial information includes all adjustments, consisting solely of normal recurring accruals and adjustments, necessary for a fair presentation of the results of operations for the quarters presented. This financial information should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Form 10-K. The results of operations for any quarter are not necessarily indicative of future results of operations.

<TABLE>
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	Fiscal 2000				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
	(in thousands, except for per share data)				
	<C>	<C>	<C>	<C>	
Net revenue	\$12,558	\$11,386	\$13,630	\$23,014	
Gross profit	7,636	6,730	8,129	14,300	
Operating income (loss)	456	295	982	2,695	
Net income	203	201	579	1,666	
Net income per share	\$ 0.02	\$ 0.02	\$ 0.05	\$ 0.14	
Weighted average shares outstanding	11,505	11,552	11,538	11,506	
	Fiscal 1999				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
	(in thousands, except for per share data)				
Net revenue	\$ 9,495	\$ 8,068	\$10,288	\$17,874	
Gross profit	5,639	4,849	6,222	10,839	
Operating income (loss)	110	(294)	393	1,915	
Net income	106	72	551	989	
Net income per share	\$ 0.01	\$ 0.01	\$ 0.06	\$ 0.10	
Weighted average shares outstanding	8,215	8,420	8,826	10,633	

Note: The aggregate of certain of the above amounts differs from that reported for the the full fiscal year due to the effects of rounding.

Quarterly fluctuations in Gaiam's revenues and operating results are due to a number of factors, including the timing of new product

introductions and mailings to customers, advertising, acquisitions (including costs of acquisitions and expenses related to integration of acquisitions), competition, pricing of products by vendors and expenditures on our systems and infrastructure. The impact on revenue and operating results, due to the timing and extent of these factors, can be significant. Our sales are also affected by seasonal influences. On an aggregate basis, Gaiam experiences strongest revenues and net income in the fourth quarter due to increased holiday spending.

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.

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. Giving effect to the conversion of \$1.475 million in debentures to 295,000 shares of common stock, the total issuance was 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.

During 2000, Gaiam consolidated its line of credit agreements with Wells Fargo Bank into one agreement. The new credit agreement, which extends through January 31, 2003, permits borrowings of up to \$6.5 million based upon the collateral value of Gaiam's accounts receivable and inventory. 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 agreement, 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 \$1.7 million and \$4.6 million during 2000 and 1999, respectively. Gaiam's net cash used in operating activities for 2000 arose primarily from increases in accounts receivable of \$4.1 million associated with growth in the business-to-business segment, increased inventories of \$1.7 million correlating to increased business volumes, and \$1.0 million to produce additional Living Arts video titles. These uses were partially offset by net cash provided by operations of \$4.8 million. Net cash used during 1999 was primarily a result of increases in accounts receivable and inventories associated with business-to-business growth.

Gaiam's investing activities provided net cash of \$2.9 million during 2000 and used cash of \$2.4 million during 1999. In June 2000, Gaiam sold 6,000 shares of Redeemable Class A preferred stock in Gaiam.com, Inc. at a price of \$1,000 per share for an aggregate price of \$6 million. On June 30, 2000, Gaiam and Whole Foods Market merged their Internet businesses into Gaiam.com, Inc. Gaiam owns 50.1% of Gaiam.com, while Whole

Foods Market currently owns 35% and the remainder is owned by various venture capital funds. As part of this transaction, Whole Foods Market, through its subsidiary, contributed \$6 million in cash plus other assets to Gaiam.com. During 2000, Gaiam used approximately \$8.7 million primarily for the Gaiam.com website, the purchase of a 160 acre conference resort in Paulden, Arizona (Gaiam Yoga Center), and additional infrastructure improvements to support the Gaiam's growth. During 1999, Gaiam generated \$2.5 million from the sale of marketable securities and used \$2.7 million primarily for its acquisitions. Gaiam also used \$2.2 million primarily to expand and upgrade e-commerce, computer and telecommunications systems.

Gaiam's financing activities provided net cash of \$3.5 million during 2000, primarily from increased borrowings on the Gaiam's line of credit. During 1999, Gaiam's financing activities generated \$9.5 million in net cash, primarily from the initial public offering.

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, 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 7A. 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 currency exchange rates and are only minimally impacted by changes in interest rates. Borrowings 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

<S>	<C>
Report of Independent Auditors.....	F-1
Consolidated Financial Statements	
Consolidated Balance Sheets.....	F-2
Consolidated Statements of Income.....	F-3
Consolidated Statements of Stockholders' Equity..	F-4
Consolidated Statements of Cash Flows.....	F-5
Notes to Consolidated Financial Statements.....	F-6

</TABLE>

REPORT OF INDEPENDENT AUDITORS

Stockholders and Board of Directors
Gaiam, Inc.

We have audited the accompanying consolidated balance sheets of Gaiam, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gaiam, Inc. and subsidiaries at December 31, 2000 and 1999 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Denver, Colorado

February 27, 2001

GAIAM, INC.
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

Assets	December 31,	
	2000	1999
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 8,578,668	\$ 3,877,465
Accounts receivable, net of allowance for doubtful accounts of \$301,539 in 2000 and \$158,292 in 1999	8,472,828	4,326,594
Accounts and notes receivable, other	1,097,390	755,924
Inventory, less allowances	6,361,046	4,555,436
Deferred advertising costs	1,625,285	2,176,325
Other current assets	1,307,416	393,330
Total current assets	27,442,633	16,085,074
Property and equipment, net	10,797,501	3,168,183
Capitalized production costs, net	2,656,666	1,636,706
Video library, net	4,631,140	4,792,456
Goodwill, net	2,379,861	1,239,507
Other assets	569,508	337,759
Total assets	\$48,477,309	\$27,259,685
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 8,091,569	\$ 7,618,344
Accrued liabilities	2,276,385	1,734,310
Accrued royalties	867,667	725,541
Capital lease obligations, current	147,649	95,844
Income taxes payable	790,267	-
Total current liabilities	12,173,537	10,174,039
Capital lease obligations, long-term	270,171	209,074
Deferred tax liability	384,968	-
Line of credit	5,500,000	1,900,000
Total long-term liabilities	6,155,139	2,109,074
Minority interest	6,037,868	26,030
Redeemable Class A preferred stock in subsidiary	6,000,000	-
Stockholders' equity:		
Class A common stock, \$.0001 par value, 92,965,000 shares authorized, 5,473,184 and 5,441,537 shares issued and outstanding at December 31, 2000 and 1999, respectively		547 544
Class B common stock, \$.0001 par value, 7,035,000 shares authorized, 5,400,000 and 5,400,000 shares issued and outstanding at December 31, 2000 and 1999, respectively		540 540
Additional paid-in capital	11,865,734	11,038,551
Deferred compensation	(422,826)	(106,992)
Retained earnings	6,666,770	4,017,899
Total stockholders' equity	18,110,765	14,950,542
Total liabilities and stockholders' equity	\$48,477,309	\$27,259,685

</TABLE>

See accompanying notes.

GAIAM, INC.
CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	Years ended December 31,		
	2000	1999	1998
<S>	<C>	<C>	<C>
Net revenue	\$60,588,018	\$45,724,662	\$30,738,540
Cost of goods sold	23,793,492	18,175,787	13,173,536

loss	(1,318,356)								

Balance at December 31, 1998	1,165,000	117	7,035,000	704	377,634	-	983,126	2,299,554	3,661,135
Issuance of common stock	331,429	32	-	-	1,449,968	-	-	-	1,450,000
Shares issued in connection with IPO, including the underwriter's overallotment	1,807,861	181	-	-	6,142,007	-	-	-	6,142,188
Issuance of common stock in conjunction with acquisitions and share conversion	1,842,247	185	(1,635,000)	(164)	1,593,971	(106,992)	-	-	1,487,000
Shares issued in connection with conversion of debt	295,000	29	-	-	1,474,971	-	-	-	1,475,000
Comprehensive income (loss):									
Net income	-	-	-	-	-	-	1,718,345	1,718,345	
Decrease in fair market value of available for sale securities, net of reclassification (see Note 1)	-	-	-	-	-	(983,126)	-	(983,126)	

Total comprehensive income	735,219								

Balance at December 31, 1999	5,441,537	544	5,400,000	540	11,038,551	(106,992)	-	4,017,899	14,950,542
Issuance of common stock in conjunction with acquisitions and compensation	31,647	3			827,183	(315,834)			511,352
Net income and comprehensive income	2,648,871 2,648,871								

Balance at December 31, 2000	5,473,184	\$547	5,400,000	\$ 540	\$11,865,734	\$(422,826)	-	\$6,666,770	\$18,110,765

</TABLE>

See accompanying notes.

GAIAM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Years ended December 31,		
	2000	1999	1998

<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income	\$ 2,648,871	\$ 1,718,345	\$ 859,781
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	1,245,155	391,000	240,431
Amortization	414,695	293,315	85,466
Stock compensation	147,492	-	-
Interest expense added to principal of margin loan		-	16,513
Minority interest in consolidated subsidiary		(59,706)	(50,858)
			261,598

Realized gains on sales of securities and property and equipment	-	(2,516,110)	(691,137)	
Deferred tax expense	384,968	(53,718)	9,684	
Changes in operating assets and liabilities, net of effects from acquisitions:				
Accounts receivable	(4,127,458)	(2,296,771)	(1,501,242)	
Inventory	(1,739,231)	(1,161,724)	(591,519)	
Deferred advertising costs	551,040	(418,480)	(243,630)	
Capitalized production costs	(1,019,960)	(964,268)	(212,361)	
Other current assets	(914,086)	(109,494)	8,527	
Other assets	(229,295)	41,615	(266,757)	
Accounts payable	(8,730)	717,852	2,569,358	
Accrued liabilities	167,310	198,741	329,672	
Income taxes payable	805,123	(424,745)	(69,784)	
Net cash provided by (used in) operating activities		(1,733,812)	(4,618,787)	904,245
INVESTING ACTIVITIES				
Purchase of property and equipment	(8,735,390)	(2,212,961)	(134,378)	
Proceeds from the sale of property and equipment	-	-	32,090	
Proceeds from the sale of securities available-for-sale	-	2,548,310	477,500	
Proceeds from sale of stock in subsidiary	11,959,923	-	-	
Payments for acquisitions, net of cash acquired	(305,773)	(2,740,703)	(1,656,611)	
Net cash provided by (used in) investing activities		2,918,760	(2,405,354)	(1,281,399)
FINANCING ACTIVITIES				
Principal payments on capital leases	(99,617)	(60,671)	(49,699)	
Proceeds from issuance of common stock	15,872	2,875,002	575,000	
Net proceeds from initial public offering	-	6,142,188	-	
Proceeds from convertible debt	-	-	549,999	
Net proceeds from (payments on) borrowings	3,600,000	535,148	(900,000)	
Net cash provided by financing activities		3,516,255	9,491,667	175,300
Net change in cash and cash equivalents	4,701,203	2,467,526	(201,854)	
Cash and cash equivalents at beginning of year	3,877,465	1,409,939	1,611,793	
Cash and cash equivalents at end of year	\$ 8,578,668	\$ 3,877,465	\$ 1,409,939	

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$ 287,080	\$ 348,580	\$ 126,025
Income taxes paid	82,099	1,541,253	312,100
Common stock issued for acquisitions	333,131	1,487,000	-
Common stock issued for convertible debt	-	1,425,000	-
Fixed assets acquired under capital lease	212,519	297,740	-

</TABLE>

See accompanying notes.

GAIAM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Gaiam, Inc. (the "Company") 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.

Basis of Consolidation

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include demand deposit accounts with financial institutions and all highly liquid investments, which mature within three months of date of purchase.

Securities Available-for-Sale

Securities available-for-sale consist of equity securities and are recorded at market value. All unrealized gains or losses, net of tax, are recorded as a separate component of stockholders' equity.

Provision for Doubtful Accounts

The Company records a provision for doubtful accounts for all receivables not expected to be collected.

Inventory

Inventory, consisting primarily of finished goods, is stated at the lower of cost (first-in, first-out method) or market.

Deferred Advertising Costs

Deferred costs primarily relate to preparation, printing and distribution of catalogs. Such costs are deferred for financial reporting purposes until the catalogs are distributed, then amortized over succeeding periods (not to exceed seven months) on the basis of estimated sales. Historical sales statistics are the principal factor used in estimating the amortization rate. Other advertising and promotional costs are expensed as incurred. Advertising costs incurred were \$10.5 million, \$10.1 million and \$7.1 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, which includes the amortization of assets recorded under capital leases. Included in property and equipment is the cost of internal-use software, including software used in connection with the Company's websites. The Company expenses all costs related to the development of internal-use software other than those incurred during the application development stage. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software (generally five years).

GAIAM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (continued)

Depreciation of property and equipment is computed on the straight-line method over estimated useful lives (generally five to ten years). Property and equipment purchased under capital leases are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the lease term.

Capitalized Production Costs

Capitalized production costs include costs incurred to produce informational videos marketed by the Company to retail marketers and direct-mail customers. These costs are deferred for financial reporting purposes until the videos are released, then amortized over succeeding periods on the basis of estimated sales. Historical sales statistics are the principal factor used in estimating the amortization rate. Accumulated amortization at December 31, 2000 and 1999 was \$1.7 million and \$1.3 million, respectively.

Video Library, Net

The video library asset represents the cost of the library of produced videos acquired through a business combination. The video library is presented net of accumulated amortization of \$674,059 and \$332,401 at December 31, 2000 and 1999 and is being amortized over a 15-year life.

Goodwill, Net

Goodwill, net represents the excess of the purchase price over the fair value of assets acquired in business acquisitions accounted for under the purchase method. Goodwill is presented net of related accumulated amortization of \$88,922 and \$15,884 at December 31, 2000 and 1999, and is being amortized over lives ranging from 10 to 20 years.

Long-Lived Assets

The carrying values of intangible and other long-lived assets are reviewed quarterly to determine if any impairment indicators are present. To date, no such impairment has been indicated. If it is determined that such indicators are present and the review indicates that the assets will not be recoverable, based on undiscounted estimated cash flows over the remaining amortization and depreciation period, their carrying values are reduced to estimated fair market value.

Accrued Royalties

The Company has various royalty agreements with instructors and artists requiring royalty payments of specified product sales based upon unit sales, or upon a specified minimum royalty amount. Payments are made quarterly and semi-annually.

Income Taxes

The Company provides for income taxes pursuant to the liability method as prescribed in Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. The liability method requires recognition of deferred income taxes based on temporary differences between financial reporting and income tax bases of assets and liabilities, using currently enacted income tax rates and regulations.

Revenues

The Company recognizes revenue at the time merchandise is shipped to the customer. Amounts billed to customers for postage and handling charges, which approximate \$3.5 million for 2000, \$3.0 million for

GAIAM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue (continued)

1999 and \$2.2 million for 1998, are recognized as revenue at the time that the revenues on the product shipments are recognized. Postage and handling costs, which approximate \$3.3 million for 2000, \$3.0 million for 1999, and \$2.1 million for 1998, are included in selling and operating expense along with other fulfillment costs incurred to warehouse, package and deliver products to customers. The Company provides a reserve for expected future returns at the time the sale is recorded based upon historical experience.

The Company's sales are attributable mainly to sales within the U.S., with a very small percentage, less than 1% of sales, to international customers. No customer represented more than 5% of sales for any of the years ended December 31, 2000, 1999 and 1998. The Company generally does not require collateral.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, securities available-for-sale, accounts receivable, payables and debt obligations. The carrying values of these financial instruments as reported in the accompanying balance sheets are assumed to approximate their fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes including the valuation of stated accounts receivable and inventory balances. Actual results could differ from those estimates.

Stock-Based Compensation

The Company accounts for its stock-based compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25") and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, rather than the alternative fair value accounting allowed by SFAS No. 123, Accounting for Stock Based Compensation.

Defined Contribution Plan

In 1999, the Company adopted a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code, which covers substantially all employees. Eligible employees may contribute amounts to the plan, via payroll withholding, subject to certain limitations. The 401(k) plan permits, but does not require, additional matching contributions to the 401(k) plan by the Company on behalf of all participants in the 401(k) plan. To date, the Company has not made any matching contributions to the 401(k) plan.

Reporting Comprehensive Income

On January 1, 1998, the Company adopted the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, Reporting on Comprehensive Income ("Statement No. 130"). SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in the financial statements. The only item of comprehensive income that the Company has is unrealized gains (losses) on securities available-for-sale. The reclassification adjustment for gains and losses included in net income for 1998, net of tax of \$618,578 include unrealized losses of \$1.8 million and net realized gains of \$427,813. The reclassification adjustment for gains and losses included in net income for 1999 include unrealized losses of

\$2.6 million and net realized gains of \$1.6 million. As of December 31, 1999, all available-for-sale securities were sold.

GAIAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

In June 1998, the FASB 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 is effective for the Company'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 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 derivative instruments.

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 periods have been presented and conform to SFAS No. 128, Earnings per Share, requirements.

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

<TABLE>
<CAPTION>

	2000	1999	1998	
<S>	<C>	<C>	<C>	
Numerator for basic earnings per share		\$ 2,648,871	\$ 1,718,345	\$ 859,781
Effect of Dilutive Securities: 8% convertible debentures		--	56,401	19,234
Numerator for diluted earnings per share		\$ 2,648,871	\$ 1,774,746	\$ 879,015
Denominator:				
Weighted average shares for basic earnings per share	10,858,139	8,785,205	8,072,877	
Effect of Dilutive Securities: Weighted average of common stock, stock options, warrants and convertible debentures		666,981	333,903	45,915
Denominators for diluted earnings per share		11,525,120	9,119,108	8,118,792
Net income per share--basic		\$ 0.24	\$ 0.20	\$ 0.11
Net income per share--diluted		\$ 0.23	\$ 0.19	\$ 0.11

</TABLE>

2. MERGERS AND ACQUISITIONS

In September 1998, the Company acquired a 67% ownership in a newly formed entity, Healing Arts Publishing, LLC (dba Living Arts) for \$2.5 million in cash. Healing Arts Publishing, Inc., which produced and distributed exercise and relaxation videos and sold environmentally oriented products through its mail order catalogs and through sales to retailers, contributed the majority of its assets and certain liabilities to

GAIAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. MERGERS AND ACQUISITIONS (CONTINUED)

Living Arts in exchange for a 33% membership interest. Effective July 1999, the Company acquired the remaining 33% minority interest in Living Arts. Additionally, effective November 1999, the Company acquired a 50.1% controlling interest in an environmental products provider. Total consideration paid by the Company for the 1999 acquisitions was \$2.3 million in cash and 207,247 shares of the Company's Class A common stock.

On June 30, 2000, Gaiam, Inc. and Whole Foods Market merged their Internet businesses into Gaiam.com, Inc. Gaiam owns 50.1% of Gaiam.com. Whole Foods

Market currently owns 35% of Gaiam.com and the remainder is owned by various venture capital funds. As part of the transaction, Whole Foods Market, through its subsidiary, contributed \$6 million in cash plus other assets to Gaiam.com. On June 19, 2000, Gaiam, Inc. sold 6,000 shares of Redeemable Class A preferred stock in Gaiam.com, Inc. at a price of \$1,000 per share for an aggregate price of \$6,000,000. This stock doesn't carry any dividend rights and is redeemable only upon the consummation of an offering by Gaiam.com of its equity securities to the public pursuant to an effective registration statement with the Securities and Exchange Commission.

Additionally, in 2000, the Company acquired a yoga props company and a 70% interest in an organic clothing manufacturer. Total consideration paid by the Company for these acquisitions was approximately \$315,000 in cash and 21,243 shares of Class A common stock. These acquisitions were accounted for using the purchase method and the results of operations are included in the consolidated financial statements of the Company from the effective acquisition dates. Goodwill associated with these acquisitions totaled approximately \$1.2 million, and is being amortized on a straight-line basis over a period of 20 years.

3. SECURITIES AVAILABLE-FOR-SALE

Securities available-for-sale consisted of shares of common stock from one issuer. During 1998, the Company sold 60,000 shares of this common stock at market value for \$703,125 to a related party and recognized a gain of \$696,992 on the sale. During the first and second quarters of 1999, the Company sold 100,000 shares of the common stock at market value for \$538,750 to a related party, and recognized a gain of \$528,528 on the sale. During the third and fourth quarters of 1999, the Company sold its remaining 215,000 shares of common stock for \$2.0 million to a non-related party and recognized a gain of \$2.0 million on the sale.

GAIAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. PROPERTY AND EQUIPMENT

Property and equipment, stated at cost, consists of the following:

<TABLE>
<CAPTION>

	December 31,		
	2000	1999	
	-----	-----	
	<C>	<C>	
Land	\$ 1,100,000	\$ -	
Buildings	1,800,000	-	
Furniture, fixtures and equipment	1,295,030	805,182	
Leasehold improvements	714,460	333,747	
Website development (including construction-in-process costs)	5,391,243	1,600,728	
Computer/telephone equipment	2,571,033	1,632,065	
Warehouse equipment	567,667	222,329	
	-----	-----	
Accumulated depreciation and amortization	13,439,433	4,594,051	(1,425,868)
	-----	-----	
	\$10,797,501	\$ 3,168,183	
	=====	=====	

</TABLE>

5. COMMITMENTS

At December 31, 2000 and 1999, the Company's property held under capital leases consisted of the following, which is included in property and equipment:

<TABLE>
<CAPTION>

	December 31,		
	2000	1999	
	-----	-----	
	<C>	<C>	
Warehouse equipment	\$ 40,229	\$ 40,229	
Computer/telephone equipment	578,064	365,545	
	-----	-----	
Accumulated amortization	618,293	405,774	(99,189)
	-----	-----	
	\$ 437,208	\$306,585	
	=====	=====	

</TABLE>

The Company leases equipment and office, retail, and warehouse space through capital and operating leases. The following schedule represents the

annual future minimum payments, as of December 31, 2000:

<TABLE>
<CAPTION>

	Capital	Operating	

<S>	<C>	<C>	
2001	\$ 155,692	\$1,100,818	
2002	147,379	1,081,874	
2003	125,412	1,039,092	
2004	55,458	1,039,092	

Total minimum lease payments		483,941	\$4,260,876
		=====	
Less portion related to interest		(66,121)	

Present value of future minimum lease payments		417,820	
Less current portion		(147,649)	

		\$ 270,171	
		=====	

</TABLE>

The Company incurred rent expense of \$1,084,071, \$790,393 and \$646,886 for the years ended December 31, 2000, 1999 and 1998, respectively.

GAIAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LINE OF CREDIT

The Company is party to revolving line of credit agreements, which extend through January 31, 2003. The credit agreements permit borrowings up to \$6.5 million based upon the collateral value of the Company's accounts receivable and inventory. Borrowings under these agreements bear interest at the prime rate, which was 9.5% at December 31, 2000. These borrowings are secured by a pledge of the Company's assets, and contain various financial covenants, including prohibiting the payment of cash dividends to its shareholders and requiring the maintenance of certain financial ratios. At December 31, 2000, the Company is in compliance with all the financial covenants.

7. INCOME TAXES

The provision for income taxes is comprised of the following:

<TABLE>
<CAPTION>

	December 31,		
	2000	1999	1998
<S>	<C>	<C>	<C>
Current:			
Federal	\$1,117,823	\$1,006,008	\$197,142
State	155,954	156,426	45,129
	-----	-----	-----
	1,273,777	1,162,434	242,271
Deferred:			
Federal	322,798	(37,610)	25,852
State	(41,088)	(62,035)	(16,168)
	-----	-----	-----
	281,710	(99,645)	9,684
	-----	-----	-----
Total	\$1,555,487	\$1,062,789	\$251,955
	=====	=====	=====

</TABLE>

Variations from the federal statutory rate are as follows:

<TABLE>
<CAPTION>

	December 31,		
	2000	1999	1998
<S>	<C>	<C>	<C>
Expected federal income tax expense at statutory rate of 34%	\$1,409,182	\$ 928,294	\$ 466,934
Effect of legal judgment - permanent difference		-	(251,609)
Effect of other permanent differences	27,359	40,104	20,276
State income tax expense, net of federal benefit	118,946	94,391	16,354
	-----	-----	-----
Income tax expense	\$1,555,487	\$1,062,789	\$ 251,955
	=====	=====	=====

</TABLE>

The legal judgment was a liability acquired in the purchase of a 67% interest in Healing Arts Publishing. This \$740,000 liability paid by the Company in 1998 resulted in a permanent tax benefit.

Deferred income taxes reflect net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the net accumulated deferred income tax asset or liability as of December 31, 2000 and 1999 are as follows:

GAIAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INCOME TAXES (CONTINUED)

<TABLE>
<CAPTION>

	December 31,	
	2000	1999
	-----	-----
<S>	<C>	<C>
Deferred tax assets:		
Reserve for bad debts	\$ 113,373	\$ 57,386
Capitalized inventory	30,165	29,777
Amortization	2,594	-
	-----	-----
	146,132	87,163
Deferred tax liabilities:		
Amortization	-	(66,060)
Prepaid catalog costs	(24,439)	-
Depreciation	(387,562)	(1,181)
	-----	-----
	(412,001)	(67,241)
	-----	-----
Deferred tax asset (liability), net	\$(265,869)	\$ 19,922

</TABLE>

8. Stockholders' Equity

The Company has warrant certificates outstanding during the year and at December 31, 2000 that entitle the holder to purchase 24,000 shares of Class A common stock at \$.50 per share. The warrant is exercisable during a two-year period beginning January 20, 2002 and ending January 9, 2004.

In June 1999, the Company completed a private placement whereby 331,429 shares of Class A common stock were issued at \$4.375 per share. A total of \$2.0 million in convertible debentures with a stated interest rate of 8% were issued during 1998 and the first six months of 1999. These debentures were convertible automatically upon the closing of the initial public offering into Class A common stock at the initial public offering per share price. A total of \$1.5 million of these debentures were converted into 295,000 shares of Class A common stock, and a \$500,000 debenture was repaid in cash.

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. The 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 1999, Gaiam issued 207,247 shares of Class A common stock in lieu of cash payments for acquisitions, and Gaiam's Chief Executive Officer converted 1,635,000 shares of Class B common stock into 1,635,000 shares of Class A common stock.

During 2000, Gaiam issued 21,243 shares of Class A common stock for two acquisitions, 6,776 shares of Class A common stock to three directors, in lieu of cash compensation, and 3,628 shares of Class A common stock upon exercise of options granted under the 1999 Long-Term Incentive Plan.

As of December 31, 2000, the Company had the following Class A common shares reserved for future issuance:

<TABLE>
<CAPTION>

<S>	<C>	
Awards under the 1999 Long-Term Incentive Plan		1,127,562
Shares reserved for warrant exercise		24,000
Total shares reserved for future issuance		1,151,562

</TABLE>

GAIAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. STOCK OPTION PLANS

On June 1, 1999, the Company adopted the 1999 Long-Term Incentive Plan ("the Plan"), which provides for the granting of options to purchase up to 1.6 million shares of the Company's common stock. Both incentive stock options and non-qualified stock options may be issued under the provisions of the Plan. Employees of the Company and its affiliates, members of the Board of Directors, consultants and certain key advisors are eligible to participate in the plan, which shall terminate no later than June 1, 2009. These options granted under the Plan generally vest and become exercisable at 2% per month for the 50 months beginning in the eleventh month after date of grant. All grants expire 7 years from the date of grant.

The Company recorded deferred compensation of \$413,320 and \$106,992 in 2000 and 1999, respectively. In 2000, deferred compensation was recorded in connection with: acquisitions made by the Company in which options were issued to employees of an acquired company; options issued to employees whereby the grant price differed from the deemed fair value of the Company's common stock; and options issued to non-employees for services to be provided over the related terms of their respective agreements. The amounts recorded in 1999 represent the difference between the grant price and the deemed fair value of the Company's common stock for shares subject to options granted in 1999. The amortization of deferred compensation is charged to operations over the service period of the options, which is typically 5 years. Total amortization expense recognized in 2000 and 1999 related to deferred compensation was \$97,486 and \$0, respectively.

A summary of stock option activity and weighted average exercise prices for the year ended December 31, 2000 follows:

<TABLE>
<CAPTION>

	2000		1999			
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price		
Outstanding at beginning of year		890,900	\$ 6.10		- \$	-
Granted:						
Price equal to fair value	253,500	15.96	851,200	4.51		
Price less than fair value	39,000	15.28	39,700	7.18		
Exercised	(3,628)	4.38	-	-		
Forfeited	(52,210)	6.52	-	-		
Outstanding at end of year	1,127,562	\$ 7.45	890,900	\$ 6.10		
Exercisable at end of year	128,552	\$ 4.47	- \$	-		
Shares available on December 31, for options that may be granted	472,438		709,100			

<TABLE>
A summary of stock options outstanding as of December 31, 2000 follows:

GAIAM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. STOCK OPTION PLANS (CONTINUED)

<TABLE>
<CAPTION>

Range of Exercise Prices	Outstanding Stock Options			Exercisable Stock Options		
	Shares Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	
\$4.00 - \$4.99	637,712	5.4	\$ 4.38	102,128	\$ 4.38	
\$5.00 - \$5.99	171,500	5.8	\$ 5.00	24,950	\$ 5.00	
\$7.00 - \$7.99	33,350	5.9	\$ 7.18	1,334	\$ 7.18	
\$15.00 - \$15.99	193,000	6.8	\$ 15.28	140	\$ 15.50	
\$16.00 - \$16.99	15,000	6.6	\$ 16.34	-	-	
\$17.00 - \$17.99	77,000	6.7	\$ 17.18	-	-	
\$4.00 - \$17.99	1,127,562	5.9	\$ 7.46	128,552	\$ 4.54	

</TABLE>

Had compensation cost for the Company's stock-based compensation plan

been determined under the fair value methodology for determining compensation cost under SFAS No. 123, the Company's net income and income per share for the years ended December 31, 2000 and 1999, would have been as follows:

<TABLE>
<CAPTION>

	For the Years Ended December 31,	
	2000	1999
<S>	<C>	<C>
Net income		
As reported	\$2,648,871	\$1,718,345
Pro forma	2,258,005	1,599,102
Net income per common share		
As reported	\$ 0.24	\$ 0.20
Pro forma	\$ 0.21	\$ 0.18
Fully diluted net income per common share:		
As reported	\$ 0.23	\$ 0.19
Pro forma	\$ 0.20	\$ 0.18

</TABLE>

In estimating the pro forma compensation expense for each equity award granted during the year, the Company used the Black Scholes option pricing model, with the following weighted-average assumptions used for grants in 2000 and 1999, respectively: risk-free interest rates in a range of 6.00% and 5.78%, expected dividend yield of zero; expected option lives of 5 years, and expected volatility of 0.48 and 1.29. Options granted prior to the Company's initial public offering were valued using the minimum value method and, therefore, volatility was not applicable.

<TABLE>
<CAPTION>

	2000	1999
<S>	<C>	<C>
Weighted-average fair value of options granted during the year:		
Price equal to fair value	\$11.85	\$ 1.85
Price less than fair value	\$11.38	\$11.21

</TABLE>

GAIAM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. RELATED PARTY TRANSACTIONS

In 1997, the Company entered into a fulfillment agreement with InnerBalance Health, publisher of a natural health catalog, (a related party under common ownership with the Chief Executive Officer of the Company) to provide customer sales, service, warehousing and distribution services. On October 1, 1998, the Company acquired all of the stock and net assets of InnerBalance Health, Inc. As these were companies under common control, the Company accounted for the purchase using historical cost. Therefore, the excess of the purchase price of \$523,677 over the value of net assets was accounted for as a reduction to additional paid-in capital.

In 1999, the Company engaged the services of ccplanet.com, Inc. (a related party under common ownership with the Chief Executive Officer of the Company) to develop and implement a new web site design utilizing the latest technology for its direct to consumer operations. The Company paid ccplanet a total of \$4.5 million for work performed on said project during 1999 and 2000, and the new Gaiam.com website was placed into service in March 2000. The Company has made its customer database and certain visual media available to ccplanet in exchange for fees totaling \$600,000 during 1999, and \$1.4 million in 2000.

Because of Whole Foods Market's investments in Gaiam.com, Whole Foods Market may be considered a related party. Whole Foods Market and Gaiam have also entered into a 10-year joint marketing agreement to promote each other's businesses and share customer data. The companies are testing a store-within-a-store concept, presenting Gaiam's lifestyle products in Whole Foods Market's larger stores.

In 2000, the Chief Executive Officer advanced funds to purchase a 70% interest in an organic clothing manufacturer. These advances, plus applicable interest, were repaid in December 2000. Additionally, the Company purchased approximately \$300,000 in inventory from Earthlings, Inc. (a related party under common ownership with the Chief Executive Officer of the Company) at Earthlings' cost.

11. SUBSEQUENT EVENTS

On October 13, 2000, the Company entered into a Merger Agreement with Real Goods Trading Corporation, Inc. (Real Goods) pursuant to which the Company

will acquire 100% of the Real Goods issued and outstanding common stock in exchange for shares of Gaiam Class A common stock. The merger was subject to approval by the Real Goods shareholders and certain other conditions described in the merger agreement, which were satisfied in January 2001. In the tax-free, stock-for-stock exchange, 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 completed on January 29, 2001, and 481,424 shares of Class A common stock were issued. The merger was accounted for using the purchase method.

12. 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 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:

GAIAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. SEGMENT INFORMATION (CONTINUED)

<TABLE>
<CAPTION>

	Year Ended December 31,		
	2000	1999	1998
	<C>	<C>	<C>
Net revenue:			
Direct to consumer	\$43,823,460	\$34,573,540	\$26,897,236
Business to business	16,764,558	11,151,122	3,841,304
Consolidated net revenue	60,588,018	45,724,662	30,738,540
Contribution margin:			
Direct to consumer	841,351	(243,949)	128,691
Business to business	3,586,415	2,368,360	856,152
Consolidated contribution margin	4,427,766	2,124,411	984,843
Reconciliation of Contribution margin to net income:			
Other income (expense)	(283,114)	605,865	388,491
Income tax expense	1,555,487	1,062,789	251,955
Minority interest (income) expense	(59,706)	(50,858)	261,598
Net income	\$ 2,648,871	\$ 1,718,345	\$ 859,781

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

For information with respect to the executive officers of the Registrant, See Item 4 - "Directors and Executive Officers of the Registrant" at the end of Part I of this report. The information required by this Item concerning the Directors of the Company is incorporated herein by reference to the Company's Proxy Statement for its Annual Meeting of Stockholders, to be held on June 7, 2001, to be filed with the Commission pursuant to Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement for its Annual Meeting of Stockholders, to be held on June 7, 2001, to be filed with the Commission pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on June 7, 2001, to be filed with the Commission pursuant to Regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on June 7, 2001, to be filed with the Commission pursuant to Regulation 14A.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) Documents filed as part of this report are as follows:

1. Financial Statements.

See listing of Financial Statements included as part of this Form 10-K in Item 8 of Part II.

2. Financial Statement Schedules.

None required.

3. Exhibits

See Item 14(c) below

(B) No reports on Form 8-K were filed during the last quarter of the period covered by this Form 10-K.

(C) Exhibits:

1. The following exhibits are incorporated by reference:

Exhibit No. Description

- 3.1 * Amended and Restated Articles of Incorporation
- 3.2 * Bylaws of Gaiam, Inc.
- 4.1 * Form of Gaiam, Inc. Stock Certificate
- 10.1 * Loan Agreement dated as of May 11, 2000 between Gaiam, Inc. and Norwest Bank Colorado N.A. - Boulder
- 10.2 * Lease dated December 16, 1999, commencing March 1, 2000 between Gaiam, Inc. and Duke-Weeks Realty Limited Partnership
- 10.3 * Lease dated December 18, 1977 between Gaiam, Inc. and Orix Prime West Broomfield Venture
- 10.4 * Gaiam, Inc. 1999 Long-Term Incentive Plan

* Previously filed

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Broomfield, State of Colorado, on this 26th day of March, 2001.

GAIAM, INC.

By: /s/ Jirka Rysavy

 Jirka Rysavy
 Chief Executive Officer

<TABLE>
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Signature	Title	Date
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<S>	<C>	<C>
/s/ Jirka Rysavy ----- Jirka Rysavy	Chairman of the Board and Chief Executive Officer	March 26, 2001
/s/ Lynn Powers ----- Lynn Powers	President, Chief Operating Officer Secretary and Director	March 26, 2001
/s/ Barnet M. Feinblum ----- Barnet M. Feinblum	Director	March 26, 2001
----- Barbara Mowry	Director	March 26, 2001

/s/ John Mackey Director March 26, 2001

John Mackey

/s/ Paul H. Ray Director March 26, 2001

Paul H. Ray

/s/ Janet Mathews Chief Financial Officer (Principal March 26, 2001

Financial and Accounting Officer)

Janet Mathews
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