

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

Commission file number: 000-25867

DIRECT FOCUS, INC.
(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

94-3002667
(I.R.S. Employer
Identification No.)

1400 NE 136th Avenue
Vancouver, Washington 98684
(Address of principal executive offices, including zip code)

(360) 694-7722
(Issuer's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months
(or for such shorter period that the issuer was required to file such reports),
and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Number of shares of issuer's common stock outstanding as of
November 12, 2001: 34,916,315

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DIRECT FOCUS, INC.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

DIRECT FOCUS, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2001	December 31, 2000
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 34,895,769	\$ 77,181,064
Short-term investments	9,234,970	-
Trade receivables (less allowance for doubtful accounts of: 2001, \$1,294,765 and 2000, \$352,279)	19,383,886	4,941,286
Inventories	37,868,001	12,653,117
Prepaid expenses and other assets	1,751,241	591,453
Note receivable	2,739,785	-
Current deferred tax asset	740,511	950,363
	-----	-----
Total current assets	106,614,163	96,317,283
	-----	-----
PROPERTY, PLANT AND EQUIPMENT (less accumulated depreciation of: 2001, \$5,749,323 and 2000, \$3,612,469)	25,487,497	16,668,884
OTHER ASSETS (less accumulated amortization of: 2001, \$689,018 and 2000, \$510,374)	37,511,187	4,140,277
	-----	-----
TOTAL ASSETS	\$169,612,847	\$117,126,444
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 20,541,540	\$ 12,335,776
Accrued liabilities	9,472,470	5,344,225
Income taxes payable	9,957,479	2,542,967
Royalty payable to stockholders	1,617,383	1,481,886
Customer deposits	853,219	2,092,611
	-----	-----
Total current liabilities	42,442,091	23,797,465
	-----	-----
LONG-TERM DEFERRED TAX LIABILITY	1,037,023	462,004
	-----	-----
STOCKHOLDERS' EQUITY:		
Common stock - authorized, 75,000,000 shares of no par value; Issued and outstanding, 2001: 34,901,315 shares, 2000: 35,317,771 shares	4,026,320	16,812,476
Retained earnings	122,107,413	76,054,499
	-----	-----
Total stockholders' equity	126,133,733	92,866,975
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$169,612,847	\$117,126,444
	=====	=====

See notes to consolidated financial statements

DIRECT FOCUS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
NET SALES	\$ 88,701,883	\$ 57,834,085	\$238,566,220	\$153,298,248
COST OF SALES	33,011,137	18,770,650	84,087,294	50,896,359
Gross profit	55,690,746	39,063,435	154,478,926	102,401,889
OPERATING EXPENSES:				
Selling and marketing	25,082,161	19,054,085	70,867,246	51,270,420
General and administrative	3,726,318	2,459,320	10,342,756	6,241,623
Royalties	1,685,888	1,288,811	5,007,430	3,454,124
Total operating expenses	30,494,367	22,802,216	86,217,432	60,966,167
INCOME FROM OPERATIONS	25,196,379	16,261,219	68,261,494	41,435,722
OTHER INCOME				
Interest income	966,162	969,872	3,478,664	2,409,584
Other - net	30,657	83,866	217,490	168,897
Total other income - net	996,819	1,053,738	3,696,154	2,578,481
INCOME BEFORE INCOME TAXES	26,193,198	17,314,957	71,957,648	44,014,203
INCOME TAX EXPENSE	9,429,682	6,233,387	25,904,734	15,845,114
NET INCOME	\$ 16,763,516	\$ 11,081,570	\$ 46,052,914	\$ 28,169,089
BASIC EARNINGS PER SHARE	\$ 0.48	\$ 0.31	\$ 1.31	\$ 0.80
DILUTED EARNINGS PER SHARE	\$ 0.46	\$ 0.31	\$ 1.28	\$ 0.78
Basic shares outstanding	35,209,547	35,283,269	35,268,137	35,280,281
Diluted shares outstanding	36,180,686	36,186,172	36,090,841	36,030,996

See notes to consolidated financial statements

DIRECT FOCUS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Nine months ended September 30,

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 46,052,914	\$ 28,169,089
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,391,999	1,936,371
Tax benefit of exercise of nonqualified options	1,147,456	801,897
Deferred income taxes	784,871	(2,137,380)
Changes in:		
Trade receivables	(4,033,198)	(282,210)
Inventories	(6,806,039)	(5,143,339)
Prepaid expenses and other current assets	(247,940)	(143,352)
Trade payables	6,815,367	4,453,705
Income taxes payable	7,289,086	2,035,321
Accrued liabilities and royalty payable to stockholders	3,179,994	1,711,502
Customer deposits	(1,239,392)	361,159
Net cash provided by operating activities	55,335,118	31,762,763
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(4,004,095)	(7,170,418)
Proceeds from sale of property, plant and equipment	-	60,000
Additions to other assets	8,195	(9,215)
Acquisition cost of Schwinn	(67,466,146)	-
Purchases of short term investments	(24,001,776)	-
Proceeds from sales and maturities of short-term investments	14,766,806	-
Issuance of note receivable	(2,739,785)	-
Net cash used in investing activities	(83,436,801)	(7,119,633)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2,115,994	494,911
Stock repurchase	(16,299,606)	(3,251,931)
Net cash used in financing activities	(14,183,612)	(2,757,020)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42,285,295)	21,886,110
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	77,181,064	35,703,457
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 34,895,769	\$ 57,589,567
SUPPLEMENTAL DISCLOSURE OF INFORMATION:		
Cash paid for income taxes	\$ 16,700,000	\$ 14,907,800
SUPPLEMENTAL DISCLOSURE OF OTHER NON-CASH INVESTING ACTIVITY:		
Champion purchase option paid by restricted stock	\$ 250,000	\$ -

See notes to consolidated financial statements

DIRECT FOCUS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Direct Focus, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to Securities and Exchange Commission rules and regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report for the fiscal year ended December 31, 2000.

The financial information included herein reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results for interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

CONSOLIDATION - The consolidated financial statements of the Company include Direct Focus, Inc., Nautilus HPS, Inc., Nautilus, Inc., DFI Properties, LLC, BFI Advertising, Inc., DFI Sales, Inc., DFI Leaseco, LLC, Nautilus Fitness Products, Inc., Nautilus/Schwinn Fitness Group, Inc., DF Hebb Industries, Inc., Schwinn Fitness International SA, Schwinn Holdings International SA, and Schwinn Fitness SA. All intercompany transactions have been eliminated.

SHORT-TERM INVESTMENTS - The Company invests from time-to-time in short-term investments, which consist primarily of commercial paper and corporate bonds with maturities at time of acquisition of greater than 90 days and less than one year. These short-term investments are typically held to maturity.

RECENT ACCOUNTING PRONOUNCEMENTS - On January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES," as amended, which establishes accounting and reporting standards for derivative instruments and hedging activities requiring that all derivatives be recognized in the balance sheet and measured at fair value. The adoption of SFAS No. 133 did not have a material effect on the Company's financial position, results of operations or cash flows.

The Company adopted SFAS No. 141, BUSINESS COMBINATIONS, effective July 1, 2001. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142, "GOODWILL AND OTHER INTANGIBLE ASSETS." The statement requires discontinuing the amortization of goodwill and other intangible assets with indefinite useful lives. Instead, these assets are to be

tested periodically for impairment and written down to their fair market value as necessary. The Company adopted the provisions of this statement effective September 20, 2001 as a result of the Schwinn acquisition (see Note 2), the effect of which is to not amortize the goodwill recorded as part of this acquisition but to annually test it for impairment.

SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, addresses accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and expands on the guidance provided by SFAS No. 121 with respect to cash flow estimations. SFAS No. 144 becomes effective for the Company's fiscal year beginning January 1, 2002. The Company is evaluating SFAS No. 144 and has not yet determined the impact of adoption on its financial position or results of operations.

2. ACQUISITION OF SCHWINN

Effective September 20, 2001, the Company acquired the accounts receivable, inventories, fixed assets and the foreign subsidiaries of the fitness equipment division ("Schwinn") of Schwinn/GT Corp. and its affiliates for a cash purchase price of approximately \$67.5 million, including acquisition costs. Schwinn was acquired through a bankruptcy auction, completed on September 12, 2001, in the United States Bankruptcy Court for the District of Colorado. The Company's bid for Schwinn was submitted as part of a \$151 million bid with Pacific Cycle, LLC, which was awarded the right to purchase Schwinn/GT Corp.'s cycling division through the Chapter 11 proceeding. Schwinn/GT Corp. filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code on July 16, 2001.

The acquired assets include plant, equipment and other property used to manufacture, assemble, distribute and sell fitness equipment including treadmills, upright stationary bicycles, recumbent stationary bicycles, elliptical machines and stair-climbing machines. The company intends to continue to use the acquired assets for these purposes.

The purchase price for Schwinn was determined in the court auction. The Company's bid was formulated on the basis of historical and projected financial performance. The Company financed the acquisition from cash on hand. In accordance with the Asset Purchase Agreement by and among the Company and Schwinn, the purchase price based on the formula set forth in the asset purchase agreement will be finalized late in the fourth quarter of 2001.

The total cost of the acquisition has been preliminarily allocated to the assets acquired and liabilities assumed as follows:

Trade receivables	\$ 10,409,402
Inventories	18,408,845
Prepaid and other current assets	911,848
Property, plant and equipment	7,027,874
Other assets	39,479
Trademark	6,800,000
Goodwill	26,468,269
Liabilities Assumed	(2,599,571)

	\$ 67,466,146
	=====

The Company has determined that the intangible asset associated with the Schwinn acquisition (a trademark valued at \$6.8 million) has an indefinite useful life. However, as the expected use and cash flows from the trademark is expected to be approximately 20 years, the Company will amortize the trademark using the straight-line method over this period. The Company will evaluate the remaining useful life of the trademark that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

The unaudited pro forma financial information below for the three months and nine months ended September 30, 2001 and 2000 were prepared as if the transaction had occurred on January 1, 2000. The pro forma financial information includes all operating costs including corporate allocations and income taxes related to the Fitness Division of Schwinn/GT Corp. (in thousands, except per share data):

	THREE MONTHS ENDED SEPT. 30,		NINE MONTHS ENDED SEPT. 30,	
	-----		-----	
	2001	2000	2001	2000
	-----	-----	-----	-----
Revenue	\$ 108,256	\$ 84,471	\$ 303,890	\$ 229,348
Net income	15,433	13,033	46,308	33,510
Basic earnings per share	.44	.37	1.31	.95
Diluted earnings per share	.43	.36	1.28	.93

The unaudited pro forma financial information is not necessarily indicative of what actual results would have been had the transaction occurred at the beginning of the respective year, nor does it purport to indicate the results of future operations of the Company.

3. INVENTORIES

	September 30,	December 31,
	2001	2000
	-----	-----
Finished goods	\$ 29,890,219	\$ 8,093,919
Work in process	1,239,898	1,160,647
Parts and components	6,737,884	3,398,551
	-----	-----
Total	\$ 37,868,001	\$ 12,653,117
	=====	=====

4. NOTE RECEIVABLE

In May 2001, the Company entered into a financing agreement with Champion Performance Products ("Champion") and its primary shareholder to provide them with a revolving credit facility and a term loan. The loan is secured by certain assets of Champion and contains several financial covenants. Under the terms of the agreement, Champion may borrow up to a maximum of \$3,000,000 under the revolving credit facility and a \$140,000 term loan. Interest on both notes is at the current prime rate and is payable monthly. In return for providing the credit facilities and the issuance of \$250,000 in value of the Company's restricted stock to Champion's primary shareholder, the Company has an option to purchase the outstanding common stock of Champion for \$6 million through October 2002.

5. PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment are summarized as follows at December 31:

	Estimated Useful Life ----- (in years)	Sept. 30, 2001 -----	Dec. 31, 2000 -----
Land.....	N/A	\$ 2,149,258	\$ 1,718,495
Buildings.....	31.5	11,197,852	9,636,774
Computer equipment.....	2-5	9,206,876	5,179,365
Production equipment.....	5	7,076,217	2,778,679
Furniture and fixtures.....	5	1,267,641	915,040
Automobiles and trucks.....	7	338,976	53,000
		-----	-----
		31,236,820	20,281,353
Less accumulated depreciation.....		(5,749,323)	(3,612,469)
		-----	-----
Property, plant and equipment, net...		\$ 25,487,497	\$ 16,668,884
		=====	=====

6. RESEARCH AND DEVELOPMENT

Internal research and development costs are expensed as incurred. Third party research and development costs are expensed when the contracted work has been performed. Research and development costs are included in cost of sales.

Research and development expense was \$507,000 and \$225,000 for the quarters ended September 30, 2001 and 2000. Research and development expense was \$1,406,000 and \$667,000 for the first nine months of 2001 and 2000, respectively.

7. STOCK OPTIONS

There were 514,061 options exercised at prices ranging from \$.07 to \$13.56 per share during the nine months ended September 30, 2001. There were 548,650 new options at prices ranging from \$13.78 to \$30.42 per share granted during the nine months ended September 30,

2001. There were 66,029 options cancelled at prices ranging from \$6.07 to \$23.02 per share during the nine months ended September 30, 2001.

8. OPERATING SEGMENTS

The following table presents information about the Company's two operating segments (in thousands):

	DIRECT PRODUCTS		COMMERCIAL & RETAIL PRODUCTS		TOTAL	
	THREE MONTHS	NINE MONTHS	THREE MONTHS	NINE MONTHS	THREE MONTHS	NINE MONTHS
PERIOD ENDED SEPTEMBER 30, 2001						
Revenues from external customers	\$ 74,010	\$ 210,529	\$ 14,692	\$ 28,037	\$ 88,702	\$ 238,566
Segment net income	\$ 15,807	\$ 44,918	\$ 957	\$ 1,135	\$ 16,764	\$ 46,053
PERIOD ENDED SEPTEMBER 30, 2000						
Revenues from external customers	\$ 51,143	\$ 136,355	\$ 6,691	\$ 16,943	\$ 57,834	\$ 153,298
Segment net income	\$ 10,855	\$ 27,974	\$ 227	\$ 195	\$ 11,082	\$ 28,169

9. EARNINGS PER SHARE

Basic and diluted earnings per share are reconciled as follows:

	THREE MONTHS ENDED SEPTEMBER 30, 2001			THREE MONTHS ENDED SEPTEMBER 30, 2000		
	INCOME	SHARES	PER SHARE AMOUNT	INCOME	SHARES	PER SHARE AMOUNT
Basic EPS:						
Net income	\$16,763,516	35,209,547	\$ 0.48	\$11,081,570	35,283,269	\$ 0.31
Effect of dilutive securities:						
Stock options	-	971,139	(0.02)	-	902,903	0.00
Diluted EPS:						
Net income	\$16,763,516	36,180,686	\$ 0.46	\$11,081,570	36,186,172	\$ 0.31

	NINE MONTHS ENDED SEPTEMBER 30, 2001			NINE MONTHS ENDED SEPTEMBER 30, 2000		
	INCOME	SHARES	PER SHARE AMOUNT	INCOME	SHARES	PER SHARE AMOUNT
Basic EPS:						
Net income	\$46,052,914	35,268,137	\$ 1.31	\$28,169,089	35,280,281	\$ 0.80
Effect of dilutive securities:						
Stock options	-	822,704	(0.03)	-	750,715	(0.02)
Diluted EPS:						
Net income	\$46,052,914	36,090,841	\$ 1.28	\$28,169,089	36,030,996	\$ 0.78

10. STOCK REPURCHASE PROGRAM

In January 2001, the Board of Directors authorized the expenditure of up to \$20 million to purchase shares of Direct Focus, Inc. common stock in open market transactions. During the nine months ended September 30, 2001, the Company repurchased a total of 941,700 shares of common stock in open market transactions for an aggregate purchase price of \$16.3 million.

In October 2001, the Board of Directors authorized the repurchase of the Company's common stock in open-market transactions from time to time, commencing October 16, 2001 through and including January 31, 2002, provided the aggregate amount spent on such repurchases during this period will not exceed \$10 million. The previously authorized expenditure of \$20 million, which was to expire on October 31, 2001, was terminated by the Board of Directors.

11. STOCK SPLIT

On July 13, 2001, the Board of Directors approved a three-for-two stock split in the form of a share dividend, payable August 13, 2001 to the Company's stockholders of record as of August 2, 2001. This split is reflected in all share and per share amounts in this report.

12. CONTINGENCIES

The Company is subject to litigation, claims, and assessments in the ordinary course of business, many of which are covered in whole or in part by insurance. Management believes that any liability resulting from such matters will not have any material adverse effect on the Company's financial position, results of operations or cash flows.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained in this Form 10-Q, including, without limitation, statements containing the words "believes," "anticipates," "estimates," "intends," "expects," "projections," "should," and words of similar import, constitute "forward-looking statements."

Investors are cautioned that all forward-looking statements involve risks and uncertainties and various factors could cause actual results to differ materially from those in the forward-looking statements. From time to time and in this Form 10-Q, we may make forward-looking statements relating to our financial performance, including the following:

- o Anticipated revenues, expenses and gross margins;
- o Seasonal patterns;
- o Expense as a percentage of revenue;
- o Anticipated earnings;
- o New product introductions; and
- o Future capital expenditures.

Numerous factors could affect our actual results, including the following:

- o Our reliance on a limited product line;
- o Market acceptance of our existing and future products;
- o Growth management challenges, including the growth resulting from the acquisition of the assets of Schwinn in September 2001;
- o Fluctuating advertising rates;
- o A decline in consumer spending due to unfavorable economic conditions;
- o Government regulatory action;
- o Our ability to effectively identify and negotiate any future strategic acquisitions;
- o Our ability to integrate the Schwinn business and any other acquired businesses into our operations; and
- o Unpredictable events and circumstances relating to international operations, including our use of foreign manufacturers.

We describe certain of these and other key risk factors elsewhere in this Form 10-Q. Readers are further cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Form 10-Q. We undertake no obligation to update publicly any forward-looking statements to reflect new information, events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

We believe that period-to-period comparisons of our operating results are not necessarily indicative of future performance. You should consider our prospects in light of the risks, expenses and difficulties frequently encountered by companies experiencing rapid growth and, in particular, rapidly growing companies that operate in evolving markets. We may not be able to successfully address these risks and difficulties. Although we have experienced net sales growth in recent years, our net sales growth may not continue, and we cannot assure you of any future growth or profitability.

STATEMENT OF OPERATIONS DATA - THREE MONTHS ENDED SEPTEMBER 30, 2001

The following table presents certain financial data regarding our third quarter operations in 2001 and 2000, as a percentage of total revenues:

	QUARTER ENDED SEPTEMBER 30,	
	2001	2000
STATEMENT OF OPERATIONS DATA		
Net sales.....	100.0%	100.0%
Cost of sales.....	37.2	32.5
Gross profit.....	62.8	67.5
Operating expenses		
Selling and marketing.....	28.3	32.9
General and administrative.....	4.2	4.3
Royalties.....	1.9	2.2
Total operating expenses.....	34.4	39.4
Operating income.....	28.4	28.1
Other income.....	1.1	1.8
Income before income taxes.....	29.5	29.9
Income tax expense.....	10.6	10.8
Net income.....	18.9%	19.2%

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

NET SALES

Net sales grew by 53.4% to \$88.7 million in the third quarter of 2001 from \$57.8 million in the third quarter of 2000. Sales within our direct products segment increased by 44.7% over prior year third quarter levels and accounted for \$74.0 million, or 83.4%, of our aggregate net sales in the quarter. Sales within our commercial and retail products segment accounted for \$14.7 million, or 16.6%, of our net sales.

Sales growth in the third quarter of 2001 resulted from expanded direct marketing of Bowflex and Nautilus Sleep Systems products, as well as from the acquisition of Schwinn, which increased sales in our commercial and retail products segment by \$4.3 million. Within our direct products segment, with respect to both our Bowflex products and our Nautilus Sleep Systems, we intend to further expand our use of spot television commercials and infomercials during the remainder of 2001 by increasing our presence in existing television markets and entering new television markets. We intend to increase sales within our commercial and retail products segment due to the Schwinn acquisition and by developing new products and expanding our sales efforts both domestically and internationally.

Notwithstanding our product diversification efforts, we anticipate that sales of our Bowflex Power Pro will continue to account for a substantial portion of our net sales for the foreseeable future. Any significant diminished consumer interest in this product line would sharply reduce our net sales and profitability. In addition, the success of each of our products depends substantially on how consumers decide to spend their money. Unfavorable economic conditions may depress consumer spending, especially for premium priced products like ours.

During the third quarter of 2001, we continued to experience unusually strong consumer demand for our Bowflex products compared to 2000. We believe this stronger than normal growth rate will not continue in future years. Our direct marketing business is largely dependent upon national cable television advertising, and we found there was considerable available time and rates were favorable in the third quarter of 2001, resulting in more time purchased and stronger sales.

We believe sales within our commercial and retail products segment, although stronger than the third quarter of 2000, will typically be lower in the second and third quarters of the year than in the first and fourth quarters. We believe the principle reason for this trend is the commercial and retail fitness industry's preparation for the impact of New Year's fitness resolutions and seasonal weather patterns related to colder winter months.

GROSS PROFIT

Gross profit grew 42.6% to \$55.7 million in the third quarter of 2001, from \$39.1 million in the same period a year ago. Our overall gross profit margin decreased 4.7% to 62.8% in the third quarter of 2001, from 67.5% in the third quarter of 2000, as a result of the shift of product mix due to the acquisition of Schwinn and stronger than expected third quarter sales in the commercial and retail segment. Our proportion of commercial and retail sales as a percentage of total net sales increased to 16.6% from 12.3% while our proportion of direct sales as a percentage of total sales decreased to 83.4% from 87.7%.

The gross margin within our direct products segment was 69.6% in the third quarter of 2001. Within our direct segment, we expect a lower percentage gross profit margin contribution from our Nautilus Sleep Systems as we continue our direct marketing campaign for this product. Similar to our Bowflex products, with the anticipated future higher sales volume of Nautilus Sleep Systems, we are starting to take advantage of overseas production and better pricing from domestic suppliers to strengthen the margins for these products.

The decrease in gross margin within our commercial and retail products segment to 28.7% in 2001 compared with 33.5% in 2000 for the third quarters respectively, is due to the Schwinn acquisition and higher research and development expenditures for the Nautilus consumer fitness products. Schwinn's manufactured treadmill inventory was subject to purchase accounting guidelines which require step-up basis adjustments. We stepped up the value of manufactured finished goods inventory acquired, in accordance with accounting principles generally accepted in the United States of America. This adjustment is to state the value of such inventories at its net realizable value, less a margin to allow for costs incurred to sell such inventory. This adjustment applies only to the inventory manufactured by Schwinn for resale to

third parties. In the fourth quarter of 2001 we expect our commercial and retail product segment to have a lower gross margin due to purchase accounting guidelines for Schwinn manufactured treadmill inventory.

OPERATING EXPENSES

SELLING AND MARKETING

Selling and marketing expenses grew to \$25.1 million in the third quarter of 2001 from \$19.1 million in the same period a year ago, an increase of 31.6%. This increase in selling and marketing expenses resulted primarily from the expansion of our direct marketing campaign for Bowflex products and Nautilus Sleep Systems and variable costs associated with our sales growth.

As a percentage of net sales, overall selling and marketing expenses decreased to 28.3% in the third quarter of 2001 from 32.9% in the third quarter of 2000. The decrease was a result of the higher proportion of commercial and retail product sales due to the acquisition of Schwinn combined with the availability of advertising time and the reduction of advertising rates as the economy has slowed. Overall, we expect that our selling and marketing expenses will increase in real dollar terms, but not as a percentage of net sales, as we:

- o Continue to expand our Bowflex direct marketing campaign;
- o Increase the commercial and retail segment sales as a percentage of our overall sales; and
- o Expand the direct marketing campaign for our Nautilus Sleep Systems.

GENERAL AND ADMINISTRATIVE

General and administrative expenses grew to \$3.7 million in the third quarter of 2001 from \$2.5 million in the same period a year ago, an increase of 51.5%. Our direct marketing business accounted for \$0.8 million of the increase, due primarily to increased staffing and infrastructure expenses necessary to support our growth. Our commercial and retail operations accounted for the remaining increase primarily due to the Schwinn acquisition. As a percentage of net sales, general and administrative expenses decreased to 4.2% in the third quarter of 2001 from 4.3% in the same period a year ago. We believe that our general and administrative expenses will increase in future periods in real dollar terms, and increase marginally as a percentage of sales.

ROYALTY

Royalty expense grew to \$1.7 million in the third quarter of 2001 from \$1.3 million in the same period a year ago, an increase of 30.8%. Both our direct and commercial/retail segments have several royalty agreements. The increase in our royalty expenses is primarily attributable to the increased sales of our Bowflex products in the quarter. Our royalty expenses will increase if sales of our Bowflex products continue to increase. In addition, the acquisition of Schwinn will result in increased royalty expenses in future periods.

OTHER INCOME

In the third quarter of 2001, other income was \$1.0 million compared to \$1.1 million for the same period a year ago. The decrease resulted primarily from lower interest earned on invested cash and cash equivalents due to considerable interest rate cuts in 2001 offsetting the effect of higher invested cash amounts. Interest income will drop considerably in future periods due to the lower rate environment and the use of cash to acquire Schwinn.

INCOME TAX EXPENSE

Income tax expense increased by \$3.2 million for the third quarter of 2001 because of the growth in our income before taxes. We expect our income tax expense to increase in line with increases of our income before taxes.

NET INCOME

For the reasons discussed above, net income grew to \$16.8 million in the third quarter of 2001 from \$11.1 million in the same period a year ago, an increase of 51.3%.

STATEMENT OF OPERATIONS DATA - NINE MONTHS ENDED SEPTEMBER 30, 2001

The following table presents certain financial data regarding operations for the first nine months of 2001 and 2000, as a percentage of total revenues:

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Net sales.....	100.0%	100.0%
Cost of sales.....	35.2	33.2
Gross profit.....	64.8	66.8
Operating expenses		
Selling and marketing.....	29.7	33.4
General and administrative.....	4.3	4.1
Royalties.....	2.1	2.3
Total operating expenses.....	36.1	39.8
Operating income.....	28.6	27.0
Other income.....	1.5	1.7
Income before income taxes.....	30.2	28.7
Income tax expense.....	10.9	10.3
Net income.....	19.3%	18.4%

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

NET SALES

Net sales for the first nine months of 2001 increased 55.6% to \$238.6 million, from \$153.3 million in the same period in 2000. Direct marketing sales for the first nine months of 2001 increased by 54.4% to \$210.5 million. Sales within our commercial and retail business accounted for \$28.0 million of our net sales. Sales growth in the nine-month period of 2001 primarily resulted from expanded direct marketing of our Bowflex and Nautilus Sleep System products.

GROSS PROFIT

Gross profit grew 50.9% to \$154.5 million in the first nine months of 2001, from \$102.4 million in the same period a year ago. Our gross profit margin decreased by 2.0% to 64.8% in the third quarter of 2001, from 66.8% in the first nine months of 2000, as a result of the shift of product mix due to the acquisition of Schwinn and strong sales in the commercial and retail segment.

OPERATING EXPENSES

SELLING AND MARKETING

Selling and marketing expenses grew to \$70.9 million in the first nine months of 2001 from \$51.3 million in the same period a year ago, an increase of 38.2%. This increase in selling and marketing expenses resulted primarily from the continued expansion of our direct marketing campaign and variable costs associated with our sales growth. As a percentage of net sales, selling and marketing expenses decreased by 3.7% to 29.7% for the first nine months of 2001 compared to 33.4% for the same period in the prior year mainly due to the higher proportion of commercial and retail product sales combined with the availability of advertising time and the reduction of advertising rates as the economy has slowed.

GENERAL AND ADMINISTRATIVE

General and administrative expenses grew to \$10.3 million for the first nine months of 2001 from \$6.2 million in the same period a year ago, a 65.7% increase. Our direct marketing business accounted for \$3.4 million of the increase through the first nine months of 2001 due primarily to increased staffing and infrastructure expenses necessary to support our growth. Commercial and retail operations accounted for the remaining increase of \$0.7 million. As a percentage of net sales, general and administrative expenses increased to 4.3% for the first nine months of 2001 from 4.1% in the same period a year ago.

ROYALTY

Royalty expense grew by 45.0% to \$5.0 million during the first nine months 2001 from \$3.5 million for the same period a year ago. The increase in royalty expenses is primarily related to Bowflex product sales for 2001.

OTHER INCOME

In the first nine months of 2001, other income increased to \$3.7 million from \$2.6 million over the same period a year ago, due to higher average cash balances during the period that increased our interest income.

INCOME TAX EXPENSE

Income tax expense increased by \$10.1 million for the first nine months of 2001 due to the Company's growth in income before taxes.

NET INCOME

For the reasons discussed above, net income for the first nine months of 2001 grew to \$46.1 million from \$28.2 million in the same period a year ago. The percentage increase in net income over the first nine months of 2000 was 63.5%.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our growth primarily from cash generated by our operating activities. During the first nine months of 2001, our operating activities generated approximately \$55.3 million in net cash, which contributed to an aggregate \$34.9 million balance in cash and cash equivalents and \$9.2 million of short-term investments. The cash and cash equivalent balance dropped from \$77.2 million at December 31, 2000 due primarily to the \$67.5 million paid to acquire Schwinn. We anticipate that our working capital requirements will increase as a result of growing our commercial and retail segment through the acquisition of Schwinn and internal growth. We also expect to materially increase our cash expenditures on spot commercials and infomercials as we expand the direct marketing campaigns for our Bowflex products and Nautilus Sleep Systems. In January 2001, our Board of Directors authorized management to repurchase up to \$20 million of the company's common stock in open-market transactions, with the terms of the purchases to be determined by management based on market conditions. In the first nine months of 2001, the Company used \$16.3 million of the authorized \$20 million to repurchase shares. A \$10 million repurchase program was approved in October 2001 by the board of directors and the remaining balance of the \$20 million repurchase program was terminated.

We maintain a \$10 million line of credit with US Bank. The line of credit is secured by certain assets and contains several financial covenants. As of the date of this filing, we are in compliance with all covenants applicable to the line of credit and there is no outstanding balance under the line.

We believe our existing cash balances, combined with our line of credit, will be sufficient to meet our capital requirements for at least the next 12 months.

RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES," as amended, which establishes accounting and reporting standards for derivative instruments and hedging activities requiring that all derivatives be recognized in the balance sheet and measured at fair value. The adoption of SFAS No. 133 did not have a material effect on the Company's financial position, results of operations or cash flows.

The Company adopted SFAS No. 141, BUSINESS COMBINATIONS, effective July 1, 2001. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142, "GOODWILL AND OTHER INTANGIBLE ASSETS." The statement requires discontinuing the amortization of goodwill and other intangible assets with indefinite useful lives. Instead, these assets are to be tested periodically for impairment and written down to their fair market value as necessary. The Company adopted the provisions of this statement effective September 20, 2001 as a result of the Schwinn acquisition, the effect of which is to not amortize the goodwill recorded as part of this acquisition but to annually test it for impairment.

SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, addresses accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and expands on the guidance provided by SFAS No. 121 with respect to cash flow estimations. SFAS No. 144 becomes effective for the Company's fiscal year beginning January 1, 2002. The Company is evaluating SFAS No. 144 and has not yet determined the impact of adoption on its financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have primarily invested cash with banks and in liquid debt instruments purchased with maturity dates of less than one year. Our bank deposits may exceed federally insured limits and there is risk of loss of the entire principal with any debt instrument. To reduce risk of loss, we limit our exposure to any one debt issuer and require certain minimum ratings for debt instruments that we purchase.

FOREIGN EXCHANGE RISK

The Company is exposed to foreign exchange risk to the extent of fluctuations in the Euro and Swiss Franc. Based upon the relative size of the Company's operations in Europe, management does not believe that the reasonably possible near-term change in the related exchange rate would have a material effect on the Company's financial position, results of operations or cash flows.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are filed herewith and this list constitutes the exhibit index.

EXHIBIT NO.	DOCUMENT DESCRIPTION
2.1	Trademark License Agreement by and between Pacific Direct, LLC., Nautilus, Inc., and Schwinn Acquisition, LLC.

(b) Reports on Form 8-K

The Company filed a report on Form 8-K dated October 4, 2001, reporting the acquisition of Schwinn.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIRECT FOCUS, INC.
(Registrant)

November 12, 2001

By: /s/ Brian R. Cook

Brian R. Cook, Chief Executive Officer

November 12, 2001

By: /s/ Rod W. Rice

Rod W. Rice, Chief Financial Officer,
Treasurer and Secretary (Principal Financial
and Accounting Officer)

TRADEMARK LICENSE AGREEMENT

This Trademark License Agreement (the "Agreement") is made and entered into as of September 20, 2001 (the "Effective Date"), by and between Pacific Direct, LLC, a Delaware limited liability company ("Licensor"), Nautilus, Inc., a Washington corporation ("Nautilus") and Schwinn Acquisition LLC ("Acquisition"), a Delaware limited liability company and a wholly owned subsidiary of Pacific Cycle, LLC, a Delaware limited liability company ("Pacific").

RECITALS

A. Nautilus is an Affiliate (as defined below) of Direct Focus, Inc., a Washington corporation ("Direct Focus") and is in the business of designing, manufacturing, marketing, selling and distributing exercise equipment and other fitness and related products for personal and commercial use;

B. Pacific is in the business of designing, manufacturing, marketing, selling and distributing bicycles, bicycling equipment and other cycling and related products for personal use;

C. Pursuant to the Bid Letter and Asset Purchase Agreements, Direct Focus and Acquisition have purchased the tangible and intangible assets of Schwinn/GT Corporation and certain affiliated companies listed in the Asset Purchase Agreements (collectively, "Schwinn"), including, among other things, trademarks and associated goodwill;

D. The SCHWINN name and trademark has been in substantial and continuous use by Schwinn and its related entities for over one hundred years and has become a famous mark entitled to protection in connection with a wide range of consumer products including cycling products, health and fitness products, clothing and footwear and a variety of other equipment and products relating to sports and recreation;

E. As part of the Asset Purchase Agreements, Direct Focus has acquired certain assets of Schwinn including valuable patents, trademarks and domain names related to Schwinn's fitness business as more fully described in the Asset Purchase Agreements ("Fitness Assets"), Acquisition has acquired certain assets of Schwinn including valuable patents, trademarks and domain names related to Schwinn's cycling business as more fully described in the Asset Purchase Agreements ("Bicycle Assets"), and the parties jointly assigned their rights to acquire to Licensor, subject to the licenses granted in this Agreement, valuable trademarks associated with both Schwinn's cycling business and its fitness business, including the Marks (including the SCHWINN(R) mark, related composite marks, and related logos) and the Domain Names (including those encompassing part of the SCHWINN mark), including those set forth in Schedules A and B to this Agreement;

F. In order to both maximize the commercial exploitation of the Marks and to protect against infringement, dilution and other diminution in value of the Marks, Nautilus and Acquisition have created Licensor which will own, manage and license such Marks, including licensing the Marks to Nautilus and Acquisition, in accordance with this Agreement and the LLC Agreement; and

G. The Parties to this Agreement desire to set forth the terms and conditions under which Nautilus and Acquisition shall be entitled to use the Marks. Licensor is willing to grant to Nautilus and

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Acquisition, and Nautilus and Acquisition are willing to accept, a license to use the Marks on the terms and conditions set forth herein.

Therefore, in consideration of the mutual covenants and promises contained in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Licensor, Nautilus and Acquisition agree as follows:

ARTICLE 1
DEFINITIONS

For purposes of this Agreement, the following capitalized terms shall have the respective meanings indicated:

1.1 "Affiliate" means "affiliate" as defined in Rule 405 promulgated under the Securities Act of 1933, as amended.

1.2 "Asset Purchase Agreements" means the Asset Purchase Agreements submitted by Pacific and Direct Focus, as amended, in connection with the Bid Letter and approved by the United States Bankruptcy Court by for the District of Colorado on September 12, 2001.

1.3 "Bid Letter" means the Bid Letter dated September 5, 2001 whereby Direct Focus and Acquisition submitted a joint bid for acquisition of the assets of Schwinn to the United States Bankruptcy Court for the District of Colorado.

1.4 "Combination Marks" shall mean those Marks that contain "Schwinn" and any additional designation, e.g. "Schwinn Cycles" or "Schwinn Fitness", and are listed as "Combination Marks" in Schedule A.

1.5 "Cycling Business" shall mean the business of engaging in the design, manufacture, promotion, distribution and sale of Cycling Products and services related thereto, and other products, services, parts, tires and accessories related thereto, and which products, services, parts, and accessories may include in the future such as would generally be considered cycling products and services by members of the cycling industry and products, services, parts and accessories related thereto. Clothing, footwear, apparel and packs, bags or similar carrying items shall be included in the Cycling Business to the extent such items are associated with being worn or used in connection with the use, operation, maintenance or repair of a Cycling Product.

1.6 "Cycling Products" shall mean wheeled products (powered and non-powered, motorized and non-motorized, mechanized and non-mechanized) used for transportation or recreational purposes (excluding motorcycles, automobiles, go-carts, all terrain vehicles and similar motorized vehicles), and related products and services. Consistent with this definition, Cycling Products shall include, without limitation, bicycles, tricycles, scooters, skateboards, all-terrain boards, personal ride-on toys, in-line skates, wheelchairs and any electric, motorized or mechanized versions of any of the foregoing, and other similar wheeled products, but shall not include exercise or stationary products that use or incorporate wheels, such as stationary bicycles. Cycling Products shall also include, without limitation, miniature and toy versions of Cycling Products, including finger bicycles and novelty items incorporating representations or depictions of Cycling Products.

1.7 "Defending Party" shall mean, with respect to any action under Section 6.3, any Party other than a Non-Defending Party.

1.8 "Domain Names" shall mean the domain names and/or URLs listed on Schedule B that incorporate the Marks.

1.9 "Fitness Business" shall mean the business of engaging in the design, manufacture, promotion, distribution and sale of Fitness Products and services related thereto (including fitness clubs and educational programs) and other products, services, parts and accessories related thereto, and which products, services, parts and accessories may include in the future such as would generally be considered health and fitness products and services by members of the health and fitness industry and products, services, parts and accessories related thereto. Clothing, footwear, apparel and packs, bags or similar carrying items shall be included in the Fitness Business to the extent such items are associated with being worn or used in connection with the use, operation, maintenance or repair of a Fitness Product.

1.10 "Fitness Products" shall mean products that are primarily intended for physical exercise, physical training, health or relaxation in a health and fitness setting and similar uses and related services, including, but not limited to, health, fitness, nutrition (e.g. vitamins, health foods and other sports, nutrition, body-building and weight loss food products and supplements), diet and fitness related wellness products and services. Consistent with this definition, Fitness Products may be used indoors or outdoors but do not consist of Cycling Products.

1.11 "Future Marks" shall mean any trademarks or service marks created or adopted by either of the Parties during the term of this Agreement that constitute any variation of the Marks, incorporate in whole or in part any of the Marks, or are a use of a Mark for a class of goods or services not previously registered with the United States Patent and Trademark Office.

1.12 "Licensee" shall mean Nautilus or Acquisition, as the context requires; "Licensees" shall mean Nautilus and Acquisition.

1.13 "LLC Agreement" means the Limited Liability Company Agreement for Pacific Direct, LLC, by and between Nautilus and Acquisition dated September 20, 2001.

1.14 "Marks" shall mean the unregistered or registered service marks and trademarks, and service marks and trademarks that are the subject of pending applications, as set forth on Schedule A to this Agreement.

1.15 "Non-Defending Party" shall mean the Party obligated to defend an action pursuant to Sections 6.3.1, 6.3.2, or 6.3.3.

1.16 "Non-Prosecuting Party" shall mean the Party with the primary right to bring an action pursuant to Sections 6.2.1, 6.2.2, or 6.2.3.

1.17 "Party" or "Parties" shall mean any or all of Acquisition, Nautilus, Licensor and their respective successors and assigns.

1.18 "Prosecuting Party" shall mean, with respect to any action under Section 6.2, any Party other than a Non-Prosecuting Party.

1.19 "Third Party" or "Third Parties" shall mean any entity other than a Party.

1.20 "Unrelated Business" shall mean the business of engaging in the design, manufacture, promotion, distribution and sale of consumer products which are not related to either the Cycling Business or Fitness Business. Examples of Unrelated Business include, without limitation, casual clothing and footwear, hats, coolers, snowboards, wakeboards, water toys and other products which are associated neither with the Cycling Business nor the Fitness Business.

ARTICLE 2

LICENSE TO USE TRADEMARKS

2.1 LICENSE OF MARKS. Subject to the terms and conditions of this Agreement, Licensor hereby grants the following licenses to use the Marks:

2.1.1 Acquisition shall have, on a worldwide basis, an exclusive, perpetual, royalty-free right and license to use and commercialize the Marks (including any Combination Mark designated in Schedule A as a "Cycle Mark") only in connection with the Cycling Business; provided, however, that Acquisition shall not use any Combination Mark designated in Schedule A as a "Fitness Mark". Acquisition hereby accepts such license and acknowledges and admits that, notwithstanding its joint ownership of the Marks through ownership of an interest in Licensor, it is expressly prohibited from using the Marks in any way related to the Fitness Business.

2.1.2 Nautilus shall have, on a worldwide basis, an exclusive, perpetual, royalty-free right and license to use and commercialize the Marks (including any Combination Mark designated in Schedule A as a "Fitness Mark") only in connection with the Fitness Business; provided, however, that Nautilus shall not use any Combination Mark designated in Schedule A as a "Cycle Mark". Nautilus hereby accepts such license and acknowledges and admits that, notwithstanding its joint ownership of the Marks through ownership of an interest in Licensor, it is expressly prohibited from using the Marks in any way related to the Cycling Business.

2.1.3 Neither Nautilus nor Acquisition shall have any license or other right to use the Marks in connection with an Unrelated Business, unless such a license is hereafter specifically granted by Licensor under a separate agreement.

2.1.4 The licenses of the Parties set forth in this Section 2.1 shall include the right to grant sub-licenses to any Third Party (including an Affiliate) who agrees to be bound by the terms of Articles 2 and 3 hereof. Notwithstanding any other provision of this Agreement, each of the Parties hereby agrees to take no action that is inconsistent in any material respect with the respective rights of the Parties granted in this Section 2.1 or that would cause material dilution of the Marks in violation of this Agreement.

2.2 FUTURE ACTIONS.

2.2.1 The Parties shall not use any Future Marks without the prior written consent of Licensor (which consent shall not be unreasonably withheld, conditioned or delayed). Upon request of a Licensee to use any Future Mark, Licensor shall determine whether such Future Mark would likely cause confusion with, or dilution of, any Mark or infringement of an exclusive license granted in this Agreement. If Licensor determines such use of a Future Mark is not likely to cause confusion or dilution

or infringement of an exclusive license granted in this Agreement, Licensor shall create and own such Future Mark and shall apply for registration of such Future Mark in such jurisdictions as are requested by the requesting Licensee, and the Future Mark shall be added as a Mark under this Agreement and licensed accordingly. The requesting Licensee shall perform all functions and execute all documents necessary to effectuate this Paragraph.

2.2.2 To the extent permitted by law, Licensor shall file in its name any application necessary to maintain registration of the Marks, the Future Marks and Domain Names in the United States ("Required Filings") and may file in its name any application necessary to maintain registration of the Marks, the Future Marks and Domain Names in any other jurisdiction ("Permitted Filings"). If Licensor does not make a Required Filing within the earlier of thirty (30) days of written notice of such failure or within ten (10) days before any filing deadline established by or binding upon the body with which the filing is made, Licensor hereby grants Licensees an irrevocable power of attorney to make such Required Filing in the name of Licensor on Licensor's behalf for Marks which they are licensed to use under this Agreement. If Licensor does not make a Permitted Filing that has been requested by a Licensee within the earlier of thirty (30) days of written request by such Licensee or within ten (10) days before any filing deadline established by or binding upon the body with which the filing is made, Licensor hereby grants Licensees an irrevocable power of attorney to make such filing in the name of Licensor on Licensor's behalf for Marks which they are licensed to use under this Agreement. All reasonable expenses for all Required Filings (and all Permitted Filings made by Licensor) shall be born by Licensor. All reasonable expenses for all Permitted Filings made by a Licensee shall be born by such Licensee.

2.2.3 At an exclusive Licensee's request, and as permitted by law and the body with which a filing for a Mark covered by an exclusive license is made, such Licensee shall be added as a party to receive the same notices as Licensor receives from such filing body in respect of such filings.

2.3 Trademark Notices and Attribution. Acquisition and Nautilus shall use reasonable efforts to ensure that the products bearing the Marks and any services with respect to which the Marks are used and any other materials displaying or incorporating the Marks (E.G., advertising and promotional materials) shall include symbols and notices that are legally sufficient to give public notice of each Party's right, title and interest thereto and to preserve and protect the Marks. Each use of the Marks shall be followed by either the "(TM)" or "SM" symbol (as applicable), if such use occurs before the Mark is federally registered, or the "(R)" symbol, if such use occurs after a federal registration (or such similar registrations as used in other jurisdictions) issues in any jurisdiction. This Section 2.3 only requires use of such symbols as required to give such notice, and would not, for example, require use of the symbol every time the Mark was used in a document if the symbol was used at least once in a manner as to provide such notice.

2.4 DOMAIN NAMES.

2.4.1 The Parties acknowledge that the existing world wide web sites represented by the Domain Names (the "Existing Sites") currently host content or are intended to host content related to both the Cycling Business and Fitness Business. The Parties shall cooperate with each other to provide for the orderly transition of the content related to the Cycling Business that is contained on the Existing Sites to a web site or sites controlled by Acquisition and the content related to the Fitness Business that is contained on the Existing Sites to a web site or sites controlled by Nautilus. Each Party consents to the other Party's use of the trade dress and other protectable look and feel that is associated with the Existing Sites. To the extent any of the Domain Names includes a Combination Mark, the Parties agree that right to use such Domain Names shall be allocated between the Parties in the same manner as the Combination

Marks. By way of example and not of limitation, the Domain Name "Schwinfitness.com" is a Combination Mark and may only be used by Nautilus, while the Domain Name "Schwinn" which is both a Mark and an Existing Site, will be operated by the Licensor and contain links to websites maintained by Nautilus and Acquisition relating to the Cycling Business and Fitness business, respectively.

2.4.2 Unless otherwise agreed by the Parties, the Existing Sites shall continue to be owned and maintained by Licensor and serve as a link to the web sites on which the content referenced in Paragraph 2.4.1 is transferred or any other web site related to the Cycling Business for Acquisition and the Fitness Business for Nautilus, as reasonably requested by the Licensees. Such links may, at the option of the Parties, be transparent to users.

2.5 RIGHT TO SUBMIT FOR APPROVAL. Each Licensee shall have the right, but no obligation, to submit any plan of operations, or product or service to the Licensor and request the Licensor's response as to whether the proposed use by such Licensee of any or all of the Marks in connection with such plan of operations, product, or service would be permitted under this Agreement (including the quality standards and scope of the license granted under this Agreement). Licensor shall have twenty (20) days to notify the requesting Licensee of Licensor's approval or disapproval, and in the case of disapproval, the specific reasons for such disapproval in sufficient detail as to allow the requesting Licensee to respond to such disapproval and, if it chooses to, modify the proposed use of the Marks so that it meets the reasons for such disapproval. If the requesting Licensee disagrees with a disapproval, its exclusive remedy is to have the matter resolved pursuant to the dispute resolution provisions of the LLC Agreement.

ARTICLE 3

QUALITY STANDARDS

3.1 PRESERVATION OF MARK VALUES; DISTRIBUTION OF PRODUCTS. The Parties recognize that the value of the Marks is in part dependent on the quality of products sold under the Marks and the lines of retail distribution of their respective products and the manner in which lines of distribution are addressed. Accordingly, the Parties agree as follows:

3.2 ACQUISITION QUALITY STANDARDS. All of the products and services sold by Acquisition in connection with the Cycling Business that bear or are designated by the Marks shall at all times comply in all material respects with (i) all applicable laws and regulations pertaining to the marketing, rendering and sale of the products and services connected to the Cycling Business, and (ii) at least the minimum quality control standards, safety regulations, and specifications established in the bicycle industry for the particular goods sold and the particular distribution channels (e.g., higher quality standards for specialty bicycle shop goods), where the failure to so comply with (ii) would result in a material loss of value in the Marks. In order to prolong an association of the Marks with high-end, specialty merchandise, Acquisition agrees not to deliver Cycling Products that bear or are designated by the Marks to Wal-Mart, K-Mart, Target, Toys `R Us, Sears or similar retailers, or to Sam's Club, Costco, Warehouse Club, or other smaller warehouse-type outlets (collectively "Restricted Stores") prior to August 1, 2002. From and after August 1, 2002, there shall be no restriction on Acquisition's ability to deliver Cycling products to the Restricted Stores.

3.3 NAUTILUS QUALITY STANDARDS. All of the products and services sold by Nautilus in connection with the Fitness Business that bear or are designated by the Marks shall at all times comply in

all material respects with (i) all applicable laws and regulations pertaining to the marketing, rendering and sale of the products and services connected to the Fitness Business, and (ii) at least the minimum quality control standards, safety regulations, and specifications established in the fitness industry for the particular goods sold and the particular distribution channels (e.g., higher quality standards for specialty exercise shop goods), where the failure to so comply with (ii) would result in a material loss of value in the Marks.

3.4 LICENSOR ACTION. Upon Licensor certifying to a Licensee that Licensor has reasonable grounds to believe (including the basis for the belief) that such Licensee is not in compliance with this Article, Licensor shall have the right, at its expense, to audit such Licensee's quality control standards and procedures for compliance with this Article upon reasonable prior notice to such Licensee, but not more than once every twelve (12) months. Upon Licensor's reasonable written request made not more than once every twelve (12) months, such Licensee shall provide Licensor with general information as to the types and extent (but not dollar amount or volume of unit sales of products or services) of Licensee's uses of the Marks. Licensee will use reasonable efforts to include in agreements with outside suppliers, contract manufacturers and sub-licensees a requirement that each comply in all material respects with all applicable laws. All persons participating in the audit or with access to the information described in this Section 3.4 shall execute and deliver a confidentiality agreement containing the terms of Section 8.14 for the benefit of Licensee. In the event that, in the reasonable opinion of the Licensor, Licensee's products and services that bear or are designated by the Marks fail to comply with the quality standards of this Article, Licensor shall give Licensee written notice setting forth in reasonable detail such failure, and Licensee shall, at its expense and within thirty (30) days thereafter, begin to take such corrective action as is necessary to comply with such standards. Failure to take such corrective action within one hundred and eighty (180) days or such longer period as is allowed under applicable law shall constitute a breach of this Agreement. If the Licensee disagrees with Licensor's determination under this Section 3.4, its exclusive remedy is to have the matter resolved pursuant to the dispute resolution provisions of the LLC Agreement.

ARTICLE 4

EXCHANGE OF INFORMATION

[This Article intentionally left blank.]

ARTICLE 5

REPRESENTATIONS AND WARRANTIES

5.1 NAUTILUS. Nautilus represents and warrants as follows:

5.1.1 Nautilus has full right, power and authority to execute, deliver and perform under this Agreement.

5.1.2 The execution, delivery and performance of this Agreement by Nautilus do not contravene any contractual restriction binding upon Nautilus or affecting any of its properties, or its Certificate of Incorporation, By-Laws or comparable organizational documents.

5.1.3 This Agreement has been duly executed and delivered by Nautilus and is a legal, valid and binding obligation of Nautilus enforceable against Nautilus in accordance with its terms.

5.2 ACQUISITION. Acquisition represents and warrants as follows:

5.2.1 Acquisition has full right, power and authority to execute, deliver and perform under this Agreement.

5.2.2 The execution, delivery and performance of this Agreement by Acquisition do not contravene any contractual restriction binding upon Acquisition or affecting any of its properties, or its Certificate of Formation or the LLC Agreement.

5.2.3 This Agreement has been duly executed and delivered by Acquisition and is a legal, valid and binding obligation of Acquisition enforceable against Acquisition in accordance with its terms.

5.3 LICENSOR. Licensor represents and warrants as follows:

5.3.1 Licensor has full right, power and authority to execute, deliver and perform under this Agreement.

5.3.2 The execution, delivery and performance of this Agreement by Licensor does not contravene any contractual restriction binding upon Licensor or affect any of its properties, or its Certificate of Formation or LLC Agreement.

5.3.3 This Agreement has been duly executed and delivered by Licensor and is a legal, valid and binding obligation of Licensor enforceable against Licensor in accordance with its terms.

5.4 OWNERSHIP RIGHTS. No Party warrants to the other that it owns any right, title, or interest in the Marks or Domain Names or any other right granted by this agreement nor that the Marks do not infringe or otherwise violate the rights of any Third Party.

ARTICLE 6

OWNERSHIP AND INFRINGEMENT

6.1 OWNERSHIP AND PROTECTION OF INTELLECTUAL PROPERTY. Acquisition and Nautilus acknowledge that their respective interests in the Marks and Domain Names is through their joint ownership of Licensor and through the licenses granted hereunder. No Party shall at any time do or cause to be done, or fail to do or cause to be done, any act or thing, directly or indirectly, contesting or in any way impairing the Licensor's ownership rights, title and interest in the Marks or Domain Names or the licenses granted under this Agreement. The provisions of other portions of this Agreement govern the rights and obligations of the Parties to bring or defend infringement and other actions, and this Section 6.1 does not obligate a Party to bring or defend any legal proceeding.

6.2 PROSECUTING INFRINGEMENT.

6.2.1 Acquisition shall have the right, at its expense, to bring any action on account of any infringements, imitations or unauthorized use of the Marks affecting or in competition with the Cycling Products or the Cycling Business, and Licensor shall cooperate with Acquisition, as Acquisition may reasonably request (including being named in such action as a plaintiff) and at Acquisition's expense, in connection with any such action brought by Acquisition. Nautilus shall also cooperate with respect to such action as may be reasonably requested by Acquisition and at Acquisition's

expense (including reimbursement of reasonable attorney's fees and indemnification for any loss, liability, claim, damage or expense suffered by Nautilus which directly results from any action taken at the request of Acquisition and any judgment or award entered against Nautilus in connection with such action). Acquisition shall be entitled to receive and retain any and all damages, settlement, or compensation paid or recovered in connection with any such action brought and prosecuted by Acquisition.

6.2.2 Nautilus shall have the right, at its expense, to bring any action on account of any infringements, imitations or unauthorized use of the Marks affecting or in competition with the Fitness Products or the Fitness Business, and Licensor shall cooperate with Nautilus (including being named in such action as a plaintiff), as Nautilus may reasonably request and at the expense of Nautilus, in connection with any such action brought by Nautilus. Acquisition shall also cooperate with respect to such action as may be reasonably requested by Nautilus and at Nautilus's expense (including reimbursement of reasonable attorney's fees and indemnification for any loss, liability, claim, damage or expense suffered by Acquisition which directly results from any action taken at the request of Nautilus and any judgment or award entered against Acquisition in connection with such action). Nautilus shall be entitled to receive and retain any and all damages, settlement, or compensation paid or recovered in connection with any such action brought and prosecuted by Nautilus.

6.2.3 Licensor shall have the right, at its expense, to bring any action on account of any infringements, imitations or unauthorized use of the Marks affecting or in competition with the Unrelated Business, and Licensees shall cooperate with Licensor, as Licensor may reasonably request and at Licensor's expense, in connection with any such action brought by Licensor. Licensor shall be entitled to receive and retain any and all damages, settlement, or compensation paid or received in connection with any such action brought and prosecuted by Licensor.

6.2.4 If within the earlier of ninety (90) days after actual knowledge of an alleged infringement, imitation, or unauthorized use, or twenty (20) days before the time when an action must be filed to preserve a claim, the Non-Prosecuting Party does not notify the other Parties of the Non-Prosecuting Party's intent to challenge, by formal or informal means (as required in the circumstances), such infringement, imitation, or unauthorized use, a Prosecuting Party may challenge the same, at its expense, provided that no settlement shall be made which would adversely affect any other Party's rights in the Marks, or which would cause a material violation by the Prosecuting Party of this Agreement, without the prior written consent of Licensor (which shall not be unreasonably withheld, conditioned or delayed), and, upon reasonable written request of a Party, the Prosecuting Party shall advise such Party of the status of the action and promptly of any material developments. The Prosecuting Party shall retain any and all damages, settlement, or compensation paid in connection with any such action brought and prosecuted solely by such Prosecuting Party.

6.3 DEFENDING AGAINST INFRINGEMENT.

6.3.1 Acquisition shall, at its expense, diligently defend and shall have the right to settle any action that may be commenced against Licensor or Licensees alleging that use of any of the Marks in the Cycling Business infringes any right of a Third Party, provided that no settlement shall be made which would adversely affect any other Party's rights in the Marks, or which would cause a material violation by Acquisition of this Agreement, without the prior written consent of the other Parties (which shall not be unreasonably withheld, conditioned or delayed). Acquisition shall retain any and all damages, settlement, or compensation paid in connection with any such action defended by Acquisition. Nautilus shall have the right, at its own expense and through its own counsel, to participate with Acquisition in any action in which Nautilus is a named party.

6.3.2 Nautilus shall, at its expense, diligently defend and shall have the right to settle any action that may be commenced against Licensor or Licensees alleging that use of any of the Marks in the Fitness Business infringes any right of a Third Party, provided that no settlement shall be made which would adversely affect any other Party's rights in the Marks, or which would cause a material violation by Nautilus of this Agreement, without the prior written consent of the other Parties (which shall not be unreasonably withheld, conditioned or delayed). Nautilus shall retain any and all damages, settlement or compensation paid in connection with any such action defended by Nautilus. Acquisition shall have the right, at its own expense and through its own counsel, to participate with Nautilus in any action in which Acquisition is a named party.

6.3.3 Licensor shall, at its expense, diligently defend and shall have the right to settle any action that may be commenced against Licensor or Licensees alleging that use of any of the Marks in an Unrelated Business infringes any right of a Third Party, provided that no settlement shall be made which would adversely affect any other Party's rights in the Marks, or which would cause a material violation by Licensor of this Agreement, without the prior written consent of the other Parties (which shall not be unreasonably withheld, conditioned or delayed). Licensor shall retain any and all damages, settlement or compensation paid in connection with any such action defended by Licensor. Acquisition and Nautilus shall have the right, at their own expense and through their own counsel, to participate with Licensor in any action in which Acquisition or Nautilus is a named party.

6.3.4 If within the earlier of thirty (30) days after service of process in an action described in Sections 6.3.1, 6.3.2 or 6.3.3 (a "Defense Action") on the Non-Defending Party or the date a Party gives notice to the Non-Defending Party of service of process on it, or twenty (20) days before the time when an answer and/or counterclaims must be filed to preserve a defense or claim (including counterclaims or cross claims) in such Defense Action, the Non-Defending Party does not notify the other Parties of the Non-Defending Party's intent to file such defenses and claims, the Defending Party may file such answer and claims and defend such action at its expense, provided that no settlement shall be made which would adversely affect any other Party's rights in the Marks, or which would cause a material violation by the Defending Party of this Agreement, without the prior written consent of the other Parties (which shall not be unreasonably withheld, conditioned or delayed), and, upon reasonable written request of a Party, the Defending Party shall advise such other Party of the status of the action and promptly of any material developments. The Defending Party shall retain any and all damages, settlement or compensation paid in connection with any such action brought and prosecuted solely by such Defending Party.

6.3.5 If at any time a Party shall conclude that the Non-Defending Party is not discharging its duty to diligently defend pursuant to Paragraphs 6.3.1, 6.3.2 or 6.3.3 hereof (other than as described in Paragraph 6.3.4), such Party shall notify the Non-Defending Party of the basis for its concern. In the event that the Non-Defending Party does not rectify the problem in response to the notice, such Party may name itself as an additional defendant in the matter and, at its expense, retain counsel for the defense of the same.

6.3.6 Any Party's election to participate in an action under Paragraphs 6.3.1, 6.3.2, 6.3.3 or 6.3.5 or a Party's election to defend under Paragraph 6.3.4 shall not waive such Party's right to indemnification under Section 8.13.

6.4 EXCHANGE OF INFORMATION. Each Licensee shall notify Licensor and the other Licensee of any conflicting uses of, or any actual or threatened acts of, infringement, imitation, unauthorized use or

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unfair competition involving use of any of the Marks or Domain Names by unauthorized Third Parties of which Licensee becomes aware.

ARTICLE 7

TERMINATION/REMEDIES

7.1 TERMINATION.

7.1.1 Except as specifically set forth in this Agreement or in the LLC Agreement, the licenses granted in this Agreement shall not terminate and shall continue in perpetuity regardless of any dissolution, transfer, or change in membership of the Limited Liability Company.

7.1.2 Licensor shall have the right to terminate a license granted hereunder at any time with respect to a Licensee if a court or arbitrator determines that such Licensee breached in any material respect any material covenant or representation and warranty of this Agreement and such breach is not cured within ninety (90) days after written decision from the court or arbitrator.

7.2 RIGHTS AND DUTIES UPON TERMINATION. Upon termination of a license granted hereunder:

7.2.1 The terminated Licensee shall immediately discontinue all use of the Marks and Domain Names and shall have no further license to use the Marks, provided that terminated Licensee's right to use the Marks shall continue with respect to products in existence, for work in process (which may be completed at the election of the Licensee), and for production sufficient to fulfill held orders or obligations to customers which are to be delivered within one hundred eighty (180) days after termination, each as of the date of such termination, for a period of twenty-four (24) months after the date of termination; provided, however, that, notwithstanding the foregoing, the terminated Licensee shall have no further right to use the Marks in a way that would violate the quality standards set forth herein;

7.2.2 All other rights under this Agreement with respect to the terminated Licensee shall immediately terminate, and terminated Licensee agrees to execute all such documents as are reasonably required by Licensor to evidence Licensor's ownership of all Marks and Domain Names, including Future Marks;

7.2.3 Termination of a license granted under this Agreement shall not deprive a Party of its ownership interest in the Licensor except as otherwise provided in the LLC Agreement; and

7.2.4 Termination of one license granted hereunder shall have no effect on the license granted to the other Licensee under this Agreement.

7.3 LIMITATIONS ON REMEDIES; CURE PERIODS. Notwithstanding the provisions of Section 7.2:

7.3.1 If a particular breach of this Agreement applies to activities in only certain countries, the remedies (other than damages) of this Agreement shall apply only to those countries and the rights in other countries shall be unaffected.

7.3.2 If the breach is the result of activities of a sub-licensee the cure periods set forth herein shall be extended by thirty (30) days.

7.3.3 If the breach is a result of a governmental action (other than a decision of a court or administrative law judge), the breaching Party shall have additional reasonable time to pursue a reversal or stay of the governmental action, but in any event not more than an additional sixty (60) days.

7.3.4 If the breach relates only to a particular Mark, the remedies (other than damages) shall apply only to that Mark and the rights as to other Marks shall remain in force.

7.3.5 If the breach relates only to a particular class of products or services, the right to remedies (other than damages) shall only apply to use of the Marks with that class of products or services.

7.3.6 Remedies of this Agreement shall have no effect on Bicycle Assets and the use thereof by Acquisition, or Fitness Assets and use thereof by Nautilus .

7.4 Nothing in this Article 7 shall limit a Party's ability to seek and obtain injunctive relief for infringement of the Marks by another Party or for exceeding the scope of the licenses granted in Section 2.1.

ARTICLE 8 MISCELLANEOUS

8.1 ENTIRE AGREEMENT. This Agreement, the LLC Agreement and the Bid Letter shall constitute the entire agreement between the Parties hereto relating to the subject matter hereof, and supersedes and cancels all previous negotiations, understandings and agreements between the parties regarding the subject matter hereof. No conditions, use of trade, course of dealing, understanding or agreement purporting to vary, explain or supplement the terms of this Agreement shall be binding unless hereafter made in writing and signed by all Parties.

8.2 EFFECT ON OTHER AGREEMENTS. Nothing contained herein shall create any legal liability or obligation on the part of any Party to this Agreement with respect to any Third Party contracts or any agreements, obligations or liabilities of the other Party, unless a Party to this Agreement expressly assumes such liability or obligation in a signed writing.

8.3 NATURE OF RELATIONSHIP. Though Licensor is a joint venture of the Licensees, all work or obligations performed by the Parties hereunder shall be performed as an independent contractors and not as an agents of the other Parties, and the Parties acknowledge that none has authority to obligate or bind the others in any way. No provision of this Agreement shall be construed to create an agency, partnership or joint venture between the parties hereto.

8.4 APPLICABLE LAW. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles thereof.

8.5 WAIVER. No waiver of any of the terms or conditions of this Agreement shall be effective or binding unless such waiver is in writing and is signed by the Party granting such waiver, nor shall this Agreement be changed, modified, discharged or terminated other than in accordance with its terms except by a writing signed by all Parties. Waiver by any Party of any term, provision or condition of this

Agreement shall not be construed to be a waiver of any other term, provision or condition nor shall such waiver be deemed a subsequent waiver of the same term, provision or condition.

8.6 SEVERABILITY. In the event any provision in this Agreement shall be deemed invalid, illegal or unenforceable, generally or in any particular jurisdiction or circumstance, the validity, legality and enforceability of the remaining provisions hereof and of such provisions in other jurisdictions and circumstances, shall not in any way be affected or impaired thereby and the Parties shall replace such invalid, illegal or unenforceable provision with a valid, legal and enforceable provision which has as nearly as possible the same intent and effect as the invalid, illegal or unenforceable provision.

8.7 NOTICES. Any notice required or which may be given hereunder shall be in writing and shall be deemed to have been given (i) when delivered to the addressee in person, (ii) when telexed or faxed by means confirming receipt, and, if notice is telexed or faxed, a copy shall be mailed by registered or certified mail, return receipt requested and postage prepaid, (iii) when sent by registered or certified mail, return receipt requested and postage prepaid, four (4) days after the date of mailing or (iv) when sent by express mail or courier service, postage or charges prepaid, on the date of scheduled delivery, addressed to the parties as set forth below, with proof of delivery recorded by the service. Such notices and other communications will be sent to the Parties at the addresses indicated below, or to such other addresses as any Party may notify the other:

If to Nautilus :

Nautilus Inc.
1400 N.E. 136th Avenue
Vancouver, WA 98684

With a copy (which shall not constitute notice) to:

Bruce Robertson
Garvey, Schubert & Barer
1191 Second Ave, 18th Floor
Seattle, WA 98101

If to Acquisition:

c/o Pacific Cycle, LLC
4902 Hammersley Road
Madison, Wisconsin 53711
Telephone: (608) 268-2468
Facsimile No.: (608) 268-2466
Attn: Chief Executive Officer

With a copy (which shall not constitute notice) to:

Pacific Cycle, LLC
100 Fairview Drive
Suite 100
Vernon Hills, IL 60061
Telephone: (847) 573-0686
Facsimile No.: (847) 573-0679
Attn: General Counsel

If to Licensor:

c/o Pacific Cycle, LLC
100 Fairview Drive
Suite 100
Vernon Hills, IL 60061
Telephone: (847) 573-0686
Facsimile No.: (847) 573-0679
Attn: General Counsel

With a copy (which shall not constitute notice) to both Nautilus and Acquisition as set forth above.

8.8 FORCE MAJEURE. If the performance of any part of this Agreement by any Party, or of any obligation under this Agreement, is prevented, restricted, interfered with or delayed by reason of any cause beyond the reasonable control of the Party liable to perform, unless conclusive evidence to the contrary is provided by another Party, the Party so affected shall, on giving written notice to the other Parties, be excused from such performance to the extent of and for the period of such prevention, restriction, interference or delay, provided that the affected Party shall use commercially reasonable efforts to avoid or remove the causes of such prevention, restriction, interference and/or delay and shall continue performance with the utmost dispatch whenever such causes are removed.

8.9 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and shall inure to the benefit of the Parties and their respective successors and assigns (including by way of merger, consolidation or sale of all or substantially all of the equity or assets of such Party); provided however, that Nautilus may only assign this Agreement to a party that also acquires the part of the Fitness Business that uses the Marks, and Acquisition may only assign this Agreement to a person or persons that also acquires the part of the Cycling Business that uses the Marks. Notwithstanding anything to the contrary set forth in this Agreement, (a) either Licensee may assign some or all of its rights hereunder to an Affiliate, provided such Affiliate agrees to be bound by the terms hereof; and (b) either Licensee may collaterally assign as security any or all of its rights hereunder (including, without limitation, such Licensee's rights hereunder to sublicense the Marks and the right to assign this Agreement pursuant to this Section 8.9) to its lenders, or its parent company's lenders, or agent of any such lenders in connection with an existing or prospective financing transaction so long as, in the case of such an assignment, such Licensee also grants a security interest in or assigns the relevant Bicycle or Fitness Assets as security for such financing transaction, and such lenders or agent, as applicable, may assign or otherwise transfer such rights under and to this Agreement, together with the relevant Bicycle Assets or Fitness Assets, as applicable, to one or more persons in the exercise of their respective rights and remedies with respect to such collateral assignment .

8.10 FURTHER ASSURANCES. Each Party hereby covenants and agrees that, at any time from and after the Effective Date, it shall execute and deliver such other documents as may be reasonably required to implement any of the provisions of this Agreement.

8.11 CONSTRUCTION. Titles or captions of articles and sections contained in this Agreement are inserted only as a matter of convenience and for reference, and in no way define, limit, extend, or describe the scope of this Agreement or the intent of any provision hereof. Whenever required by the

context, the singular number shall include the plural, the plural number shall include the singular, and the gender of any pronoun shall include all genders.

8.12 COUNTERPARTS. This Agreement may be executed in multiple copies, each of which shall be deemed an original and together which shall constitute one and the same instrument.

8.13. INDEMNITY.

8.13.1 Acquisition shall indemnify Nautilus and Licensor and defend and hold them harmless against any and all actual damages and professional and other expenses, including, but not limited to reasonable attorney and expert fees (collectively, "Damages") incurred or suffered by Nautilus or Licensor arising out of any contractual, tortious or other claims or proceedings brought against Nautilus or Licensor by a third party claiming relief against Nautilus or Licensor by reason of the conduct of the Cycling Business by Acquisition, except insofar as any such claims may arise from any breach of this Agreement or the LLC Agreement by Nautilus or Licensor.

8.13.2 Nautilus shall indemnify Acquisition and Licensor and defend and hold them harmless against any and all Damages incurred or suffered by Acquisition or Licensor arising out of any contractual, tortious or other claims or proceedings brought against Acquisition or Licensor by a third party claiming relief against Acquisition or Licensor by reason of the conduct of the Fitness Business by Nautilus , except insofar as any such claims may arise from any breach of this Agreement or the LLC Agreement by Acquisition or Licensor.

8.13.3 The Licensees shall obtain and maintain at their respective expense general liability insurance, including broad form coverage for contractual liability, product liability and personal injury liability (including bodily injury and death), consistent with that maintained by Third Parties similarly situated. Upon request a Licensee shall provide proof of such insurance to the other Parties.

8.14 CONFIDENTIALITY. The Parties have entered into an agreement to maintain each other's confidential information pursuant to the LLC Agreement. The terms of that agreement shall govern the rights and responsibilities with respect to use and disclosure of any confidential information disclosed under this Agreement, including the Audit provisions of Section 3.4. In addition, the Parties acknowledge that, as a result of the purchase of the Schwinn assets, each party may have access to information relating to the Schwinn assets that is deemed confidential by the other Party because of its relationship to that party's business. The Parties therefore agree that, notwithstanding any other provision to the contrary in this Agreement or in the LLC Agreement, all information relating to the Schwinn assets shall be treated as and subject to the restrictions governing Confidential Information in the LLC Agreement, except that (a) Nautilus may use and disclose any such information relating to the Fitness Business without limitation and (b) Acquisition may use and disclose any such information relating to the Cycling Business without limitation.

8.15 DISPUTE RESOLUTION. Article 6 notwithstanding, any dispute between or among the Parties relating to this Agreement shall be resolved exclusively through the dispute resolution provisions of the LLC Agreement.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by its duly authorized officers as of date first above written.

LICENSOR:

NAUTILUS, INC.:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

SCHWINN ACQUISITION LLC:

By: _____
Name: _____
Title: _____

SCHEDULE A
MARKS

A. UNITED STATES MARKS

MARK	GOODS/SERVICES	REG. NO.	REG. DATE	INT'L CLASS	ACTIVE/ INACTIVE	SERIAL NO.	USE
S	Bicycles	1191632	03/09/82	12	A		Joint
S	Bicycle parts and accessories - namely saddles and reflectors	831732	07/11/67	12	A		Joint
GENUINE AUTHENTIC SCHWINN	Bicycles and structural parts therefor	2067721	06/03/97	12	A		Joint
SCHWINN	BICYCLES	428626	03/25/47	12	A		Joint
SCHWINN	Bicycle helmets and computers for use by bicyclists	1909799	08/08/95	09	A		Joint
SCHWINN	Bicycles and parts therefor . . .	1909911	08/08/95	12	A		Joint
SCHWINN	Cycling apparel; namely hats, caps, t-shirts, shorts, sweatshirts and gloves	1902797	07/04/95	25	A		Joint
SCHWINN	Bicycles	1665772	11/26/91	12	A		Joint
SCHWINN	Bicycles	Puerto Rico 7372			A		Joint
SCHWINN AMERICAN	Bicycles	626119	05/01/56	12	A		Cycles
SCHWINN APPROVED	Bicycle parts and accessories and products	952451	01/30/73	A	A		Joint
SCHWINN BICYCLES SALES & SERVICE	Bicycle repair and maintenance services	1216108	11/09/82	39	A		Cycles
SCHWINN CRUISER	Bicycles	1171128	09/29/81	12	A		Cycles
SCHWINN CYCLE TRUCK	Bicycles	371422	09/26/39	12	A		Cycles
SCHWINN GIRAFFE	Bicycles	1186614	01/19/82	12	A		Cycles
SCHWINN QUALITY CHICAGO	Bicycles	407574	06/13/44	12	A		Joint
SCHWINN SCRAMBLER	Vehicle tires, more particularly bicycle tires	802716	01/25/66	12	A		Cycles
SCHWINN SIDEWINDER	Bicycles	1248275	08/16/83	12	A		Cycles
SCHWINN SKIPPER	Bicycles	616120	11/15/55	12	A		Cycles
SCHWINN TWINN	Tandem bicycles	772714	07/07/64	12	A		Cycles
SCHWINN-QUALITY	Bicycles	1532929	04/04/89	12	A		Joint
S	Bicycles	1360429			I		Joint
AUTO CYCLE ARNOLD SCHWINN CO. CHICAGO	Bicycles which are propelled only by the rider thereof	541699			I		Joint
AUTO CYCLE ARNOLD SCHWINN CO. CHICAGO	Bicycles	1741171			I		Joint
PIONEER SCHWINN	Bicycle sales, service, and advertising of same	---			I	73-374021	Joint

SCHWINN	Bicycles and parts therefor	915615		I		Joint
SCHWINN	Bicycle exerciser	Illinois 60359		A		Joint
SCHWINN	Bicycles, water bottles and mounting cages	1130803		I		Joint
SCHWINN	Unicycles	1093196		I		Joint
SCHWINN	Cycling apparel - namely, hats, caps, t-shirts, one and two-piece rainsuits, shoes and gloves	988465		I		Joint
SCHWINN	Bicycles	526131		I		Joint
SCHWINN	Bicycles and Parts	MA 32144		I		Joint
SCHWINN	Bicycles	NJ N/A		I		Joint
SCHWINN	Bicycles	1361744		I		Joint
SCHWINN - FOR THE YOUNG IN HEART	Bicycles and parts therefor	944513		I		Joint
SCHWINN APPROVED	Bicycle parts and accessories and products	760175		I		Joint
SCHWINN CYCLING AND FITNESS SCHWINN QUALITY	Repair and maintenance of bicycles	1655037		I		Joint
SCHWINN FACTORY TRAINED SERVICE	Conducting classroom instruction in the servicing and repairing of bicycles	1114253		I		Joint
SCHWINN JET	Bicycles	543982		I		Cycles
SCHWINN MIRADA	Bicycles	1339120		I		Cycles
SCHWINN THREADS	Cycling apparel; namely, athletic shorts, t-shirts, caps, sweatshirts, jackets, sweaters and polo shirts	ITU		I	74-207989	Joint
SCHWINN WESTWIND	Vehicle tires, more particularly bicycle tires	659349		I		Cycles
SCHWINN . . . THE BICYCLE PEOPLE	Bicycle parts and accessories . . .	1063715		I		Cycles
SCHWINN'S CYCLING & FITNESS THE LEADING AUTHORITY	Magazine dealing with bicycle riding and physical fitness	1673864		I		Joint
SCHWINN-BILT	Bicycles	NJ N/A		I		Joint
TEAM SCHWINN	Bicycles	1127856		I		Joint
SCHWINN	Exercise equipment; namely, stationary bicycles, treadmills, stair-climbing machines and cross country ski machines	1910207	08/08/95 28	A		Joint
YOU JUST FEEL BETTER ON A SCHWINN	Repair and maintenance of bicycles	ITU		I	74-300420	Joint
SCHWINN HOME TRAINER	Exercise apparatus; namely electronically operated treadmill device	1721147		I		Fitness

MASTER SCHWINN						Common Law	Joint
SCHWINN FITNESS						Common law	Fitness
STING-RAY	Speedometers	0855541	8/27/68	09	A	72/282.398	Joint
SCHWINN FITNESS INTERNATIONAL						Common law	Fitness

ITALICS: SUPPLEMENTAL REGISTER

B. INTERNATIONAL REGISTERED TRADEMARKS (ALL JOINT USE)

COUNTRY NAME	MARK	REG. NO.	REG. DATE	INT'L CLASS	GOODS	SERIAL #
Argentina	SCHWINN QUALITY & Design	1597419	7/1/85	12	Bicycles	258242
Aruba	SCHWINN	12877	1/1/86	12	Bicycles	070757
Australia	SCHWINN	B488249	6/1/88	28	Stationary bicycle exercisers	488249
Australia	SCHWINN	B488248	6/1/88	12	Bicycles and parts thereof	488248
Australia	SCHWINN QUALITY & Design	A550848	2/21/91	12	Bicycles	550848
Austria	SCHWINN	136153	6/17/91	12	Bicycles	
Austria	SCHWINN QUALITY & Design	136559	7/17/91	12	Bicycles and parts thereof; bicycle frames and bicycle tires	AM55991
Benelux	SCHWINN	491597	2/12/91	12	Bicycles	759608
Benelux	SCHWINN	472221 3, 4, 9, 12, 14, 25, 28	1/22/90	1, 2,	Bicycles and parts thereof	
Benelux	SCHWINN QUALITY	494929	2/12/91	12	Bicycles	759598
Bolivia	SCHWINN & Design	6086C	8/2/44	12	Bicycles and parts thereof	11015A
Brazil	SCHWINN	816090777	10/29/96	12	Bicycles and parts thereof; bicycle frames and bicycle tires	816090777
Brazil	SCHWINN	819991465	9/28/99	28	Stationary bicycle exercisers	819991465
Brazil	SCHWINN QUALITY & Design	816090718	10/29/96	12	Bicycles	816090718
Canada	SCHWINN	31926	11/1/48	12	Bicycles, bicycle stationary exercisers	201046
Chile	SCHWINN	392807	5/27/82	12	Bicycles	
Chile	SCHWINN	509687	4/8/98	28		
China	SCHWINN	502701	10/30/89	28	Dyestuffs, paints, pigments, coating materials, printing ink (sporting articles)	8844075
China	SCHWINN	204611	2/14/84	12, 28	Bicycles and parts thereof	204611
China	SCHWINN & Design	650943	8/1/94	12	Bicycles	
Columbia	SCHWINN	231028	8/24/00	28		
Costa Rica	SCHWINN	11439/8673	3/8/89	12	Bicycles	
Costa Rico	SCHWINN	123322	12/11/00	28	Bicycles	

Denmark SCHWINN 836591 11/22/91 12 Bicycles and parts thereof; VA112391
bicycle frames/tires

Denmark	SCHWINN QUALITY & Design	836691	11/22/91 12	Bicycles and parts thereof; bicycle frames, tires	VA112491
Ecuador	SCHWINN	461495	11/9/90 12	Bicycles	1888790
El Salvador	SCHWINN	017124	10/19/69 12	Bicycles	
Finland	SCHWINN	119754	6/5/92 12	Bicycles	61591
Finland	SCHWINN QUALITY & Design	140408	10/20/95 12	Bicycles and parts thereof, bicycle frames and tires	61691
France	SCHWINN	1722439	2/19/91 12	Bicycles	268524
France	SCHWINN	1197321	3/4/82 09, 20, 28	Apparatus and instruments for measuring and control	622764
France	SCHWINN QUALITY & Design	1722438	2/19/91 12	Bicycles and parts thereof	268523
Germany	SCHWINN	1047388 10, 14, 20, 28	4/19/83 9,	Bicycles	SCH3702712W
Germany	SCHWINN	2014951	2/18/91 12	Bicycles	SCH3702712W
Germany	SCHWINN QUALITY & Design	2034846	2/18/91 12	Bicycles and parts thereof; bicycle frames and bicycle tires	SCH3702812
Guatemala	SCHWINN	007050	8/20/94 12	Bicycles	
Guatemala	SCHWINN	107912	11/30/00 28		
Honduras	SCHWINN	005457	5/14/49 12	Bicycles	5457
Hong Kong	SCHWINN	B29631990	11/19/88 12	Bicycles and parts thereof	742488
Hungary	SCHWINN	127401	8/11/88 12, 25, 28	Bicycles and parts and fittings; clothing, footwear, and headgear; gymnastic and sporting articles; machines and appliances	247887
India	SCHWINN	283709	10/26/72 12	Bicycles	283709
India	SCHWINN & Design	283655	10/24/72 12	Bicycles	283655
Indonesia	SCHWINN	359842	5/30/96 28		16688
Italy	SCHWINN	402249	2/25/82 28	Bicycles	17663
Italy	SCHWINN	611765	12/16/93 12	Bicycles	91810
Italy	SCHWINN QUALITY & Design	611770	12/16/93 12	Bicycles	91815
Japan	SCHWINN	1913188	11/27/86 28	Mechanical implements for training human body, and other articles	2060384
Japan	SCHWINN QUALITY & Design	2723478	11/7/97 12	Bicycles	20381
Korea	SCHWINN	253722	11/6/92 12	Bicycles	317191
Korea	SCHWINN QUALITY & Design	253723	11/6/92 12	Bicycles	317291
Mexico	SCHWINN	368900	10/26/88 12	Bicycles and parts thereof	051209
Mexico	SCHWINN	620994	5/26/97 28	Bicycle type exercisers	296119
Mexico	SCHWINN QUALITY & Design	416794	3/4/91 12	Bicycles	107800
Netherlands Antilles	SCHWINN	002292	4/25/89 12	Bicycles	
New Zealand	SCHWINN	606132	1/5/00 28	Bicycle type exercisers	606132

New Zealand	SCHWINN	136319	3/11/81 12	Bicycles and accessories	136319
Nicaragua	SCHWINN	005920	3/7/49 12	Bicycles	5920
Panama	SCHWINN	002714	7/23/59 12	Bicycles	2714
Paraguay	SCHWINN	113117	11/19/84 12	Bicycles	001625
Peru	SCHWINN	63777	5/29/00 28		
Peru	SCHWINN	086270	7/24/90 12	Bicycles	167312
Puerto Rico	SCHWINN	007372	5/11/49 12	Bicycles	
Singapore	SCHWINN	85583	2/18/83 28	Exercise apparatus and equipment, and parts and fittings therefor	
South Africa	SCHWINN	821374	2/16/82 28	Bicycles and parts therefor	821374
South Africa	SCHWINN	832237	4/13/83 12	Bicycles	832237
South Africa	SCHWINN QUALITY & Design	910707	2/5/91 12	Bicycles	070791
Spain	SCHWINN	1618901	2/20/91 12	Bicycles	1618901
Spain	SCHWINN & Design	691159	6/29/75 12	Bicycles	691159
Surinam	SCHWINN & Design	004535	5/26/44 12	Bicycles	
Sweden	SCHWINN QUALITY & Design	242039	11/13/92 12	Bicycles and parts thereof; bicycle frames and bicycle tires	911023
Switzerland	SCHWINN	387862	2/19/91 12	Bicycles	115891
Switzerland	SCHWINN QUALITY & Design	387904	1/17/92 12	Bicycles	116191
Taiwan	SCHWINN	733045	11/16/96 12		
Taiwan	SCHWINN QUALITY & Design	650943	8/1/94 28	All kinds of bicycles and assemblies, components, and parts	82022011
United Kingdom	SCHWINN	1454162	11/1/91 12	Bicycles	1454162
United Kingdom	SCHWINN QUALITY & Design	1454161	12/20/91 12	Bicycles	1454161
Uruguay	SCHWINN & Design	229884	10/31/89 12	Bicycles	
Venezuela	SCHWINN & Design	016328	11/26/45 12		
Virgin Islands	SCHWINN	005498	3/25/87 12	Bicycles	

C. INTERNATIONAL PENDING TRADEMARKS (ALL JOINT USE)

COUNTRY NAME	MARK	SER. NO.	INT'L CLASS	GOODS
Argentina	SCHWINN	2084410	28	Sporting goods
Ecuador	SCHWINN	101575	28	Exercise apparatus and equipment, and parts and fittings therefor
Indonesia	SCHWINN	D0025118	12	Bicycles and parts
Paraguay	SCHWINN	29385-1999	28	Exercise apparatus and equipment, and parts and fittings therefor
Venezuela	SCHWINN	585-189/00	28	Exercise apparatus and equipment, and parts and fittings therefor

SCHEDULE B
DOMAIN NAMES

DOMAIN NAME	USE
Schwinn.com	Joint
Schwinn.net	Joint
Schwinnbike.com	Cycles
Schwinnbmx.com	Cycles
Schwinncycles.com	Cycles
Schwinnepicenter.com	Fitness
Schwinn europe.com	Joint
Schwinnfitness.com	Fitness
Schwinn-fitness.com	Fitness
Schwinnfitnessacademy.com	Fitness
Schwinn-gt.com	Cycles
Schwinn-gt.net	Cycles
Schwinn gt.net	Cycles
Schwinn-gtdealernet.com	Cycles
Schwinn-gtdealernet.net	Cycles
Schwinn-international.com	Joint
Schwinn gtint.com	Cycles
Schwinn gt-int.com	Cycles
Schwinnonline.com	Joint
Schwinnracing.com	Joint
Schwinnreporter.com	Joint
Schwinnripp.com	Fitness
Sportshaus.com	Joint
Ignaz.com	Joint
Cranktv.com	Cycles
Bikesnfitness.com	Joint

