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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

Commission file number: 000-25867

NAUTILUS, INC.
(Exact name of Registrant as specified in its charter)

Washington	**94-3002667**
(State or other jurisdiction of incorporation or organization)	**(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	New York Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☒ No ☐

The aggregate market value of the voting stock held by non-affiliates, computed by reference to the last sales price ($19.51) as reported on the New York Stock Exchange, as of the last business day of the Registrant's most recently completed second fiscal quarter (June 30, 2004) was $638,527,709.

The number of shares outstanding of the Registrant's Common Stock as of February 15, 2005 was 33,165,508 shares.

Documents Incorporated by Reference

The Registrant has incorporated by reference into Part III of this Form 10-K portions of its Proxy Statement for its 2005 Annual Meeting of Stockholders.

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NAUTILUS, INC.

2004 FORM 10-K ANNUAL REPORT

PART I

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K, including, without limitation, statements containing the words "could," "may," "will," "should," "plan," "believes," "anticipates," "estimates," "predicts," "expects," "projections," "potential," "continue," 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-K, we may make forward-looking statements relating to our financial performance, including the following:

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

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

- *The availability of media time and fluctuating advertising rates;*
- *A decline in consumer spending due to unfavorable economic conditions;*
- *Our ability to effectively develop, market and sell future products;*
- *Our ability to get foreign sourced products through customs in a timely manner;*
- *Our ability to effectively identify and negotiate any future strategic acquisitions;*
- *Our ability to adequately protect our intellectual property;*
- *Introduction of lower priced competing products;*
- *Unpredictable events and circumstances relating to our international operations, including our use of foreign manufacturers; and*
- *Government regulatory action.*

We describe certain of these and other key risk factors elsewhere in more detail in this Form 10-K. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except to the extent required by federal securities laws, 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-K or to reflect the occurrence of unanticipated events.

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Item 1. Business

OVERVIEW

Nautilus, Inc. (the "Company") is a leading marketer, developer and manufacturer of branded health and fitness products sold under such well-known brand names as Nautilus, Bowflex, Schwinn, StairMaster and Trimline. Our products are distributed through diversified direct, retail and commercial sales channels, both domestically and internationally. We market and sell a variety of branded products that are targeted at specific segments where people shop or exercise. Nautilus and StairMaster brands are most commonly marketed through the commercial and high-end specialty retail markets, while the Bowflex and Schwinn branded products are marketed primarily through retail and direct channels. Our product marketing includes direct response marketing utilizing a combination of television commercials, infomercials, response mailings, the Internet, catalog, and inbound/outbound call centers. It also includes a sales force and dealer network marketing to retail organizations, health clubs, government agencies, hotels, corporate fitness centers, colleges, universities and assisted living facilities worldwide.

Founded in 1986, the Company has grown to over $520 million in annual sales through a combination of internal growth of our Bowflex brand and a series of strategic acquisitions of strong brands, including Nautilus International, Inc. ("Nautilus") in January 1999, the fitness division of Schwinn/GT Corp. and its affiliates ("Schwinn Fitness") in September 2001 and StairMaster Sports/Medical, Inc. ("StairMaster") in February 2002. As a result of these acquisitions, we considerably expanded our portfolio of leading brands, product lines, channels of distribution, product development capabilities and the size of our customer base. We now offer a comprehensive line of cardiovascular and strength or weight resistance products in the direct, retail and commercial fitness channels both domestically and internationally.

Our product lines reflect a complete assortment of high-quality fitness equipment. Our Nautilus brand includes three lines of selectorized strength equipment, plus free weights, benches, and both upright and recumbent exercise cycles. During 2004, the company developed a line of Nautilus cardiovascular equipment, including new ellipticals and treadmills, and began development of a commercial version of our popular TreadClimber cardio machine. Our StairMaster brand is best known for steppers and stepmills designed for excellent lower-body and cardiovascular workouts, but also includes treadmills and ellipticals. Our Bowflex brand has been expanded to represent a complete line of fitness equipment, both strength and cardio, including multiple models of home gyms, plus strength cages, free weights, benches, TreadClimber and treadmills. Our Schwinn Fitness brand includes a popular line for indoor cycling, along with upright and recumbent exercise bikes, and treadmills and ellipticals.

Our products are in approximately 25% of U.S. retail doors, and approximately 40% of specialty fitness doors. In addition, we have more than 1,200 dealers in the U.S., a worldwide network of distributors in over 50 countries, and sales offices in Switzerland, Italy, Germany, the United Kingdom and China.

The Company was incorporated in California in 1986 and became a Washington corporation in 1993. On March 14, 2005, the Company changed its corporate name from The Nautilus Group, Inc. to Nautilus, Inc. to reflect the Company functioning as a united team with the "power of one" rather than as a holding company or group. Our common stock is listed on the New York Stock Exchange and trades under the symbol "NLS."

Our principal executive offices are located at 1400 NE 136th Avenue, Vancouver, Washington 98684, and our telephone number is (360) 694-7722. Beginning July 1, 2005, our principal executive offices will be located at 16400 SE Nautilus Drive, Vancouver, Washington 98683.

As used in this Form 10-K, the terms "we," "our," "us," "Nautilus" and "Company" refer to Nautilus, Inc. and its subsidiaries. The names Nautilus®, Bowflex®, Power Rod®, TreadClimber®, Schwinn® (fitness products), StairMaster® and Trimline® are trademarks of the Company.

WHERE YOU CAN FIND MORE INFORMATION

We file annual reports, quarterly reports, current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 as amended ("Exchange Act"). You can inspect and copy our reports, proxy statements and other information filed with the SEC at the offices of the SEC's Public Reference Room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The SEC maintains an Internet site at http://www.sec.gov/ where you can obtain most of our SEC filings. We also make available, free of charge on our website at www.nautilus.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed electronically with the SEC. In addition, our code of business conduct and ethics, corporate governance policies, and the charters of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are available on our corporate website. The information found on our website is not part of this Form 10-K. You can also obtain copies of these reports by contacting our corporate relations department at (360) 418-6169.

BUSINESS SEGMENTS

Our operating segments include the direct, commercial/retail, and corporate segments. The direct segment includes all brands and related operations involved in marketing to consumers through a variety of direct marketing channels. The Bowflex brand of strength and cardiovascular equipment are the principal fitness equipment products in our direct segment.

The commercial/retail segment includes all brands and related operations that do not involve direct marketing to consumers. Products in this segment currently consist of fitness equipment branded under the Nautilus, Schwinn, StairMaster, Trimline and Bowflex names, and depending on the brand, are sold through commercial and/or retail sales channels. Product categories sold through the commercial/retail segment include strength equipment, treadmills, ellipticals, exercise bikes, stairclimbers, stepmills, and other fitness-related accessories.

Sales from our Bowflex home-gym product line across all sales channels, including related shipping revenue, accounted for 48% or our aggregate net sales in 2004, down from 52% and 61% in 2003 and 2002, respectively, as we continue our strategies of diversification into the commercial and retail markets and introduce new direct-marketed products.

The corporate segment consists mainly of director costs, general legal and accounting fees, salaries of corporate personnel, as well as other costs not specifically attributable to the other two business segments. In addition, treasury is a corporate function, so interest income from investments is included in the corporate segment.

In the nutrition market, we have established a strategic relationship with Champion Nutrition ("Champion") as supplier of nutritional supplements that are complementary with our fitness and healthy lifestyle product offerings and are marketed through our direct and commercial/retail segments.

Detailed financial information about our three business segments is included in Note 3 of the Notes to Consolidated Financial Statements.

DIRECT BUSINESS SEGMENT

Direct to Consumer Marketing

Through our direct-to-consumer sales and distribution channel, we market and sell our products directly to the end consumer. We market and sell Bowflex branded products through this channel utilizing an integrated combination of media and direct consumer contact. Along with "spot" television advertising, which ranges in length from 30 seconds to as long as five minutes, we also utilize extended 30-minute television "infomercials," Internet advertising, our product websites, inquiry response mailings, catalog, and inbound/outbound call centers. By selling directly to consumers, we are able to fully realize premium price points paid for our products and drive our brand equity.

To date, we have been highly successful with what we refer to as a "two-step" marketing approach. Our two-step approach focuses first on generating consumer interest in our products while eliciting consumer requests for product information. Development of this interest is achieved primarily through the use of spot commercials and infomercials, supplemented by Internet advertising. The second step focuses on converting the informational requests into sales, which we accomplish through a combination of response mailings and outbound calling.

Conversion of Direct-Marketed Product Inquiries Into Sales

Customer Service Call Center and Order Processing. We manage our own customer service call center in Vancouver, Washington. It operates 18 to 23 hours per day to receive and process the vast majority of all infomercial-generated and customer service-related inquiries. We have developed a skills-based call routing system that automatically routes each incoming call to the most highly qualified inside sales agent or customer service representative available. Using our highly integrated telephony, customer relationship management, and customized order management systems, the appropriate sales professional answers product questions, proactively educates the potential consumer about the benefits of our product line, promotes financing through our third-party private label credit card, typically up sells the benefits of higher priced models in our product line, and closes the transaction process by capturing the consumer's order information. These sophisticated systems allow us to most effectively utilize our customer service staff, prioritize call types, and improve customer service.

We contract with large telemarketing companies to receive and process information requests generated by our spot television advertising 24 hours per day. The telemarketing agents for these companies collect names, addresses and other basic information from callers but do not directly sell our products. During our own call center's hours of operations, the outside telemarketing agents may transfer callers that show immediate buying interest for our products to one of our specially trained sales professionals.

Internet. We use spot commercials and infomercials, together with Internet advertising and search-engine placement, to lead consumers to our website, as we believe consumers who visit our website are more inclined to purchase our products. We believe we successfully balance our goals of finalizing sales and capturing consumer information by strategically designing our web pages and carefully analyzing web page visits, conversion rates, average sales prices and inquiry counts.

Consumer Finance Programs. We believe that convenient consumer financing is an important tool in our direct marketing sales efforts and that the availability of financing induces many of our consumers to make inquiries and purchases when they otherwise would not. For several years we have offered "zero-down" financing to approved consumers on all direct-to-consumer sales, and now offer highly competitive low, fixed payment financing promotions in support of the sale of our direct product line. We arrange financing for our customers through two separate consumer finance companies, pursuant to non-recourse consumer financing agreements. Under these arrangements, based on a brief application process that simply involves a few minutes over the telephone with one of our customer service professionals or during a visit to one of our websites, we can obtain financing decisions for our consumers in a matter of seconds. For consumers that are approved, the ordered product can be immediately submitted for fulfillment, without any need for cumbersome follow-on paperwork. The consumer finance companies pay us promptly following delivery of product and concurrently send to each approved customer a Nautilus, Inc. private label credit card that may be used for future purchases of our products.

Because our high-quality fitness equipment generally requires a substantial investment, over 90% of our direct segment customers use either popular credit cards such as VISA or MasterCard, or take advantage of the private Nautilus card. Consumer financing through our private Nautilus card has risen to 64% of direct channel sales, compared to 43% in 2003 and 37% in 2002. We believe these financing programs will continue to be an important and effective marketing tool for customers purchasing products directly through our call center and product websites. Additionally this increase in consumer financing has an additional benefit to our Company in that these consumers generally have additional credit available to purchase additional products.

Seasonality

The effectiveness of our direct marketing is influenced by seasonal factors. We have found that second quarter influences on television viewership, such as the broadcast of national network season finales and seasonal weather factors, cause our spot television commercials on national cable television to be less effective in the second quarter than in other periods of the year. In addition, during the spring and summer consumers tend to do more activities outside including exercise, which impacts sales of fitness equipment that is used indoors.

COMMERCIAL/RETAIL BUSINESS SEGMENT

Commercial/Retail Sales and Marketing

We market and sell our Nautilus, Schwinn, and StairMaster commercial fitness equipment through our sales force and selected dealers and retailers to health clubs, government agencies, hotels, corporate fitness centers, colleges, universities and assisted living facilities. Our commercial sales force is focused on strengthening the market position of our existing Nautilus, Schwinn, and StairMaster commercial product lines. Internationally, we market and sell our Nautilus, Schwinn, and StairMaster commercial fitness products through our foreign subsidiaries and a worldwide network of independent distributors.

We also market a complete line of retail consumer fitness equipment, under the Nautilus, Bowflex, Schwinn, StairMaster, and Trimline brands, through an independent network of more than 1,200 dealers, sporting goods retailers, wholesale clubs and specialty stores worldwide. In addition to products already offered through our retail sales channel, we intend to continue bringing products previously sold exclusively through our direct sales channel to retail. By leveraging the advertising dollars spent on direct marketing, we believe we can effectively sell our direct to consumer products through our retail sales channel where the vast majority of consumers purchase fitness products. The direct advertising not only generates revenue through direct to consumer sales, but it also creates brand and product awareness that lead to sales in our retail sales channel.

Commercial Approach

We position ourselves as “The Health & Fitness Innovators” to encourage our commercial market customers and potential customers to think of us first when considering their fitness equipment and programming needs. Our strategy is to address the needs of the three key constituencies of today’s health clubs:

- Club owners (customer satisfaction and profit)
- Club staff (continuing education and career development)
- Club users (improved health and fitness)

Fitness Academy. The Fitness Academy was established in 1997 to provide programming and educational information to both consumers and fitness professionals. To date, the Fitness Academy has provided training and certification to hundreds of fitness professionals in the Schwinn Cycling Program and has recently added a range of strength training programs based on Nautilus training principles to its repertoire. Many of these programs are targeted to special groups such as seniors, women and youth that are particularly important to the fitness industry today.

Fitness Academy programs are designed to aid clubs in increasing profits by encouraging cost efficient group exercise classes; benefit staff members by helping them increase their range of fitness education skills; and motivate members to stick with their exercise programs to truly experience fitness results.

Advertising. We advertise in select trade publications, including publications that reach key industry stakeholders. Specific placement is driven by marketing and product development events and ads are coded to assist us in measuring the effectiveness of each individual ad with respect to our objectives of increasing brand awareness and increasing sales leads.

Direct Mail Promotions. We maintain a database that includes contacts at thousands of commercial facilities and enables us to monitor responses to direct mail promotions. All direct mail promotions are supplemented by a telemarketing effort to maximize customer response.

Trade Shows. There are several national and regional industry trade shows, such as IHRSA and Club Industry, as well as many events that showcase our programs and products. Trade shows also provide excellent opportunities to meet face-to-face with our customers and the media to obtain valuable feedback by being able to test marketing messages, receive customer input on product designs, and evaluate the competition.

Internet. We currently maintain and direct consumers to our websites, which can be found at www.nautilus.com. These websites contain Company and product information. None of the information on these websites is part of this Form 10-K.

Retail Approach

The main focus for marketing our retail products is two-fold: 1) fully support our network of customers, and 2) leverage our direct marketing advertising dollars to market products through the retail sales channel that were previously only available to consumers through the direct sales channel. Company sponsored marketing programs have been developed to ensure that our Nautilus, Schwinn, Bowflex, StairMaster and Trimline brands remain prominent in the minds of customers and consumers and drive consumers to their local retailers.

Trade Shows. There are three national trade shows that are very important to the Company’s retail division: the Health & Fitness Business Expo, the industry’s premier showcase for retail fitness products; Interbike, the bicycle industry’s premier gathering; and Supershow, the mega-trade show representing retail products in virtually every category. Trade shows also provide excellent opportunities to meet face-to-face with our customers and the media to obtain valuable feedback on marketing messages, product designs, and the competition.

Internet. The Company currently maintains and directs customers to our websites, which can be found at www.nautilus.com. These websites contain Company and product information. None of the information on these websites is part of this Form 10-K.

International Approach

Our international operations are headquartered in Switzerland. We have integrated all of our brands from an operational standpoint and are distributing our products through a network of over 90 distributors in over 50 countries divided among three regions:

- Asia/Pacific
- Europe/Middle East/Africa
- Central/South America

In each of these regions, we have responsible sales people and third party warehouses (except Central/South America which we support from our United States distribution facilities) to deliver our products in a timely and cost effective manner. Communication amongst our business partners within each region is essential to our strategy so we may support our products, develop innovative marketing activities, and achieve global brand recognition.

In our largest international markets, the United Kingdom, Germany, and Italy, we operate our own offices, which possess a team of sales representatives that focus not only on selling to fitness clubs but also on selling to the government, hotel, and medical/paramedical markets. Canada is another significant market for our business, we use a combination of direct sales professionals and distributors to support our Canadian business. We sell products from our commercial/retail and direct segment product portfolios to dealers and retail stores within Canada.

We have alliances with distributors in most markets to sell commercial products from our Nautilus, Schwinn, and StairMaster brands. This enables us to sell "package deals" to international fitness clubs, which may prefer to buy from one supplier that can offer the broadest array of products at a competitive price. By building our portfolio of brand names, we have greater ability to compete in the international marketplace in which our main competitors have benefited for many years from the ability to negotiate "package deals." We believe our brand names have strong recognition in the international marketplace, which will allow us to compete more effectively in the future.

Sales outside the U.S. represented approximately $66.5 million, $66.3 million, and $60.7 million for the years ended December 31, 2004, 2003 and 2002, respectively. Long lived assets outside the U.S. were approximately $0.4 million, $0.6 million and $0.5 million at December 31, 2004, 2003 and 2002, respectively.

Seasonality

In general, sales of our retail fitness equipment are highly seasonal. We believe that sales within our commercial/retail segment are considerably lower in the second quarter of the year compared to the other quarters. Our strongest quarter for the commercial/retail segment is generally the fourth quarter, followed by the third then first quarters. We believe the principal reason for this trend is the commercial/retail fitness industry's preparation for the impact of New Year's fitness resolutions and seasonal weather patterns that encourage more fitness activity indoors.

CONSUMER TRENDS

We believe our organic growth has benefited from a number of demographic and market trends that we expect will continue, including:

- Growing global consumer awareness of positive benefits of good fitness and nutrition;
- Expanding media attention worldwide on health and fitness;
- An aging population that is maintaining a more active lifestyle;
- Continued attention to appearance and health by consumers, which is expected to increase as the "baby-boomers" pass through their 40's, 50's, and 60's;
- High healthcare costs that are focusing more attention on preventative practices like exercise;
- Government financial support for health and fitness programs intended to combat the growing obesity crisis in the United States; and
- Expansion of the market for sophisticated high-quality fitness equipment for the home due to consumers' continued demand for higher levels of efficiency in their workout regimes.

We believe these consumer trends bode well for our future growth prospects. Just as the "baby boomers," those Americans born between 1946 and 1964, started the modern fitness movement, we believe they will continue to be a driving force as they age. According to the Sporting Goods Manufacturers Association (the "SGMA"), the population of Americans fitting this demographic profile is estimated to be around 77 million. We believe baby boomers will use more of their increasing leisure time for exercise and more of their disposable income for fitness equipment purchases as they strive to counter the effects of aging.

Trends in Exercise Equipment

Since 1990, the fitness equipment industry has more than doubled in size and has been the most successful category of sporting goods. Interest in exercising with fitness equipment is supported by the increase in health club memberships in the U.S., which according to the SGMA, have increased 90% from 20.7 million in 1990 to 39.4 million in 2003. Consumer interest in health clubs has benefited the market for home fitness equipment as well as the commercial fitness equipment business. Consumers who utilize health clubs are exposed to an array of fitness equipment products and brand names, as well as education about the uses and benefits of fitness equipment.

The U.S. fitness equipment market consists of two distinct market segments: home and institutional. The institutional, or commercial, fitness market is more visible to consumers, but the home market is much larger and has experienced much of the meaningful growth in the overall market. Based on statistics provided by the SGMA, 2004 sales of home equipment by manufacturers in wholesale dollars totaled approximately $3.2 billion, representing more than 80% of the overall fitness equipment market. In contrast, the SGMA reports that sales of commercial fitness equipment totaled approximately $0.8 billion in 2004, which is flat compared to 2003. We estimate our U.S. fitness equipment target market to be approximately $5.4 billion as our products are sold at both wholesale and retail prices.

According to the SGMA, the fitness equipment market increased an estimated 4% in 2004 as compared to less than 1% growth in 2003. SGMA indicates the outlook for 2005 is continued growth of 4% to 5% in fitness equipment sales. The SGMA cites a stronger economy, growing consumer awareness of the value of exercise, the growth of health club memberships, lower or stable prices for equipment of improving quality and continued expansion of the new housing market where consumers have tended to build larger homes as reasons for the growth expectation.

The international markets represent a strong opportunity for growth, driven by the continued fitness boom across Europe and the increasing focus on fitness and healthy lifestyles by more affluent consumers in Asia and Latin America. In fact, according to recent data published by the International Health, Racquet and Sportsclub Association (the "IHRSA"), there are approximately 29,000 health clubs in Europe, 7,800 in Latin America and 4,800 in the Asia/Australia market. For comparison, there are approximately 23,500 clubs with approximately 39.4 million members operating in the U.S as of January 2004. According to the IHRSA, health club memberships in the United Kingdom totaled 3.4 million in 2003 compared with 1.5 million in 1996, an increase of 127%. Health club memberships in Germany totaled 5.1 million in 2003 compared with 3.3 million in 1995, an increase of 55%. We believe demand for U.S. products will increase, as foreign consumers increasingly demand the reliability, service and innovative designs provided by U.S. suppliers.

Trends in Nutrition Products

The market for nutritional supplements is large and yet is highly fragmented with many manufacturers. According to the Nutrition Business Journal (the "NBJ"), United States nutritional supplement sales totaled $19.8 billion in 2003 compared to $18.0 billion in 2002, representing a 10% increase. Within the nutritional supplements industry category, sports nutrition supplements and meal replacement products are the market segments in which we compete. We estimate our U.S. nutritional supplement industry target market to be approximately $5.0 billion as our products are sold at both wholesale and retail prices. Sports nutritionals have gained wide acceptance as an essential component of a committed athletic lifestyle, but increasing numbers of consumers who aren't necessarily health club devotees are also turning to sports nutritionals, often in lieu of traditional beverages and snacks. Marketers across the board have responded by downplaying their long-standing hard-core sports image and highlighting the broader nutritional, energy-boosting, and wellness benefits of their products.

COMPETITION

Direct Business Segment

Home Fitness Equipment. The market for our Bowflex strength and cardiovascular fitness products is highly competitive. We believe the principal competitive factors affecting this portion of our business are product price, innovation, quality, brand name recognition, financing options, and customer service. Our direct marketed brands compete directly with a large number of companies that manufacture, market and distribute home fitness equipment. Our principal direct competitors include ICON Health and Fitness (marketing products under the brand names Powerflex, Crossbar, Health Rider, NordicTrak, Image, ProForm, Weslo, and under license, Reebok, Weider and Gold's Gym) and Fitness Quest (through its Gazelle, Total Gym, and SlamMan brands).

Commercial/Retail Segment

Commercial Fitness Equipment. The market for commercial fitness equipment is highly competitive. Our Nautilus, Schwinn, and StairMaster brands compete against the products of numerous other commercial fitness equipment companies, including Life Fitness (a division of Brunswick), Cybex, Star Trac, Precor (owned by Amer Group, PLC), and Techno Gym. We believe the key competitive factors in this industry include price, quality, durability, diversity of features, financing options, product service network, and product innovation.

Retail Fitness Equipment. Strong competition exists with respect to the retail fitness equipment market. Our Nautilus, Schwinn, Bowflex, StairMaster and Trimline brands compete against the products of numerous domestic retail fitness equipment companies including ICON Health & Fitness (marketing products under the brand names Weslo, Crossbow, Crossbar, Health Rider, NordicTrak, ProForm, Image and, under license, Reebok, Weider and Gold's Gym), Life Fitness, Star Trac, True Fitness Technology, HOIST Fitness Systems, Horizon Fitness (a division of Johnson Health Tech), Cybex, Fitness Quest, and Precor. The principal competitive factors in the retail fitness equipment industry include price, quality, brand name recognition, customer service and the ability to create and develop new, innovative products.

We believe that our combination of recognized brand names, innovative products, high quality products, multiple distribution channels, brand marketing awareness programs, and dependable customer service allows us to remain competitive in our current markets.

STRATEGY

Our mission is to be a complete provider of products to the health and fitness industry and help people achieve a fit and healthy lifestyle through proper exercise and nutrition. At the core of this mission is an internal initiative called FIT #1, which is the foundation of our plan to create long-term stockholder value.

FIT #1 stands for Financial rigor, Innovation, Trust and a drive to be #1 in the categories in which we compete. These are the core strategic elements around which we plan to structure our activities, enabling us to refocus our efforts and continue our growth. Financial rigor means we must ensure accurate and streamlined financial and forecasting processes. Innovation means we must apply creative solutions to both research and development and business operations. Trust means we must ensure we are taking care of our customers and stockholders and doing everything we can to serve them.

In 2003, we conducted a thorough due diligence process, in which we interviewed our internal team, spoke with industry consultants, and conducted the most comprehensive market research study in our history in order to help identify and realize our growth opportunities. We have targeted several areas as significant opportunities for growth, including leveraging our research and development capabilities to launch new products and repositioning our strength and cardiovascular products to better meet customer demand and shopping patterns. We also seek to improve operating efficiencies and cash flow by streamlining operations and maximizing business synergies, such as brand equity, sales channels and marketing resources.

Market Research

Our market research indicated that while we possess distinct competitive advantages, we have not fully capitalized on the many opportunities available to us in the $11.4 billion exercise and nutrition markets that we compete in. During 2003, we performed in-depth analysis of our business model and believe that we have significant opportunities to optimize our sales channel mix for our brands. We are a leader in selling strength products through the direct marketing channel, but our research showed that approximately 80% of our target consumer market buys fitness products through the retail channel. As a result, we continued moving into the retail market in 2004 by providing equipment through retailers.

Focus on Innovation

We continue to leverage our advanced research and development capabilities and our strong brand names to expand our existing product lines and launch new innovative products. Innovation is an important part of our strategy as we continue to emphasize the expansion and diversification of our product development capabilities in health and fitness products. We develop new products either from internally generated ideas or by acquiring or licensing patented technology from outside inventors and then enhancing the technology.

Our research and development competencies have been enhanced through the acquisition of Schwinn Fitness and StairMaster. With the purchase of these companies, we gained a state-of-the-art test facility and prototype facility, along with a staff of designers and engineers. Our additional research and development resources have allowed us to become fully integrated in the product development process, allowing us to take a new product concept from the beginning of feasibility studies straight through to production and continuing product review. This integration allows us a greater degree of control over the new product process, which should allow us to generate a higher quality product, increase our speed to market, and control our costs.

Research and development expense was $6.8 million, $5.7 million, and $4.5 million for 2004, 2003, and 2002, respectively.

Leverage Sales Channels

We are repositioning our products to better meet consumer demand and shopping patterns. This means offering more of the products consumers want (e.g. cardiovascular fitness equipment) in the places consumers want to buy our products (e.g. retail outlets). We are moving more of our products to the retail channel and are differentiating our products to specifically fit the needs of the consumer shopping in each sales channel. For example, we will sell different models of Bowflex in retail as compared to the direct sales channel. This strategy will allow us and our partners to have differentiated products under the same brand, enabling each channel to provide the products its consumers demand.

Streamline Company Operations

Another foundational element of our strategy is our effort to reorganize from a channel focus to a consumer focus. We are driving to operate as one company and not several separate channel-based businesses. Included in this focus change is a drive to leverage our expertise, experience and diversity of thought from across our organization to realize synergies, efficiencies and cost savings. In 2005 we will continue to adopt best practices across our locations and experience the benefits of one research and development team, one sales methodology, and common warehousing and distribution facilities for all our products in the most effective locations. We are establishing a performance-driven culture based on teamwork that clearly ties employee compensation to both company and individual performance. We are seeking to develop a high-energy collaborative culture with a clear focus on the metrics that drive performance and create shareholder value. Into 2005 we will seek common technology platforms, including our websites, to further capitalize on the power of one team, one Company.

EMPLOYEES

As of December 31, 2004, we employed approximately 1,200 employees, including nine executive officers. None of our employees are subject to any collective bargaining agreements.

INTELLECTUAL PROPERTY

We own many trademarks including Nautilus®, Bowflex®, Power Rod®, TreadClimber®, Schwinn® (fitness products), SelectTech®, StairMaster® and Trimline®. Our trademarks, many of which are registered or subject to pending applications in the United States and other countries, are used on a variety of our products. We believe that our trademarks are of great value, assuring the consumer that the product being purchased is of high quality and provides a good value.

We also place significant value on product designs (the overall appearance and image of our products) and processes which, as much as trademarks, distinguish our products in the marketplace. We hold many United States and foreign patents and have submitted additional applications for patent protection that are pending approval. We believe all patents are important to our strategy and have identified the patents on the TreadClimber as the most significant to our business. Although our Bowflex trademark is protected as long as we continuously use the trademark, the main U.S. patent on our Bowflex Power Rod resistance technology expired on April 27, 2004. The main U.S. patent on our TreadClimber line of cardiovascular equipment expires on December 13, 2013. The expiration of our patents could trigger the introduction of similar products by competitors.

Building our intellectual property portfolio is an important factor in maintaining our competitive position in the fitness industry. If we do not or are unable to adequately protect our intellectual property, our sales and profitability could be adversely affected. We are very protective of these proprietary rights and take action to prevent counterfeit reproductions or other infringing products. As we expand our market share, geographic scope and product categories, intellectual property disputes are anticipated to increase making it more expensive and challenging to establish and protect our proprietary rights and to defend against claims of infringement by others. Refer to Item 3, Legal Proceedings, and Note 14 of the Notes to Consolidated Financial Statements for a discussion of significant intellectual property disputes. As we expand our market share, geographic scope and product categories, intellectual property disputes are anticipated to increase making it more expensive and challenging to establish and protect our proprietary rights and to defend claims of infringement by others.

Each federally registered trademark is renewable indefinitely if the trademark is still in use at the time of renewal. We are not aware of any material claims of infringement or other challenges to our right to use our trademarks.

MANUFACTURING AND DISTRIBUTION

Our primary manufacturing and distribution objectives for all of our products are to maintain product quality, reduce and control costs, maximize production flexibility and improve delivery speed. This is accomplished by applying the popular lean manufacturing philosophy to our manufacturing infrastructure. Our product components are manufactured primarily in the U.S. and Asia. We have not experienced any significant issues with availability of raw materials or quality control either domestically or abroad, and do not anticipate any in the foreseeable future.

For our direct-marketed and retail products, we mainly use Asian suppliers to manufacture the components and finished goods. Whenever possible, we attempt to use at least two suppliers to manufacture each product component in order to improve flexibility, efficiency, and emphasis on product quality. We also have domestic operations in Texas that manufactures our various lines of consumer treadmills and the Bowflex TreadClimber product line.

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Our commercial strength fitness products are manufactured in Virginia and our commercial cardiovascular fitness products are manufactured in Oklahoma. These operations are vertically integrated and include such functions as metal fabrication, powder coating, upholstery and vacuum-formed plastics processes. By managing our own manufacturing operations, we can control the quality of our commercial products and offer customers greater color specification flexibility, build-to-order capability, and unique product configurations. Our Oklahoma facility was recently honored by the Oklahoma Department of Labor and the Occupational Safety and Health Administration for its excellence in safety.

Domestically, we inspect, package, and ship our products from our facilities in Washington, Virginia, Illinois, Texas, and Oklahoma. We rely primarily on United Parcel Service ("UPS") to deliver our direct products. We distribute our retail and commercial fitness equipment from our facilities in Illinois, Oklahoma, and Texas using various commercial truck lines. We distribute commercial strength fitness equipment from our Virginia warehouse facilities directly to customers primarily through our truck fleet. This method of distribution allows us to effectively control the set up and inspection of equipment at the end-user's facilities.

For international sales, we have distributors in more than 50 countries, and we ship our products from leased facilities in Switzerland, the United Kingdom and Germany. We also lease, on a month-to-month basis, flexible warehouse space in multiple countries in Asia and Europe, the largest of which is located in the Netherlands. This flexible warehouse space is devoted to international distribution of our products.

Item 2. Properties

The following is a summary of principal properties owned or leased by the Company:

Location	Segment	Primary Function(s)	Owned or Leased	Lease Expiration	Approximate space
Washington	Direct, Corporate	Current corporate headquarters, call center, warehouse, production, and distribution	Owned		114,000 sq. feet
Washington	Direct	Warehouse, production, and distribution	Leased	April 30, 2006	80,000 sq. feet
Washington	Corporate	Future world headquarters and call center	Leased	July 1, 2015	482,538 sq. feet
Virginia	Direct	Warehouse and distribution	Owned		105,000 sq. feet
Virginia	Commercial/Retail	Commercial equipment manufacturing	Owned		124,000 sq. feet
Virginia	Commercial/Retail	Engineering, prototyping, customer service, and administrative	Owned		27,000 sq. feet
Virginia	Commercial/Retail	Showroom	Owned		9,000 sq. feet
Virginia	Commercial/Retail	Commercial equipment sales and warehouse	Owned		29,500 sq. feet
Virginia	Commercial/Retail	Warehouse and distribution	Owned		86,000 sq. feet
Virginia	Direct	Warehouse and distribution	Owned		65,000 sq. feet
Illinois	Commercial/Retail	Warehouse and distribution	Leased	December 31, 2008	139,000 sq. feet
Colorado	Commercial/Retail	Administrative, warehouse, production, testing, and distribution	Owned		86,000 sq. feet
Texas	Commercial/Retail	Warehouse and distribution	Owned		63,000 sq. feet
Texas	Commercial/Retail	Warehouse	Leased	Month-to-month	35,000 sq. feet
Texas	Commercial/Retail	Warehouse	Leased	Month-to-month	24,000 sq. feet
Texas	Direct, Commercial/Retail	Administrative, manufacturing, and warehouse	Owned		135,000 sq. feet
Oklahoma	Commercial/Retail	Manufacturing	Leased	December 31, 2011	125,000 sq. feet
Oklahoma	Commercial/Retail	Distribution	Leased	April 30, 2005	22,500 sq. feet
Oklahoma	Commercial/Retail	Distribution	Leased	Month-to-month	22,500 sq. feet
Switzerland	Commercial/Retail	Administrative	Leased	December 31, 2007	4,112 sq. feet
Switzerland	Commercial/Retail	Warehouse and distribution	Leased	March 31, 2005	11,108 sq. feet
Germany	Commercial/Retail	Administrative and distribution	Leased	Month-to-month	2,798 sq. feet
United Kingdom	Commercial/Retail	Administrative, showroom, and warehouse	Leased	May 24, 2014	10,495 sq. feet
Italy	Commercial/Retail	Administrative and distribution	Leased	June 30, 2005	1,033 sq. feet
China	Corporate, Direct, Commercial/Retail	Administrative	Leased	November 14, 2007	4,269 sq. feet

In general, our properties are well maintained, adequate and suitable for their purposes, and we believe these properties will meet our operational needs for the foreseeable future. If we require additional warehouse or office space, we believe we will be able to obtain such space on commercially reasonable terms.

Item 3. Legal Proceedings

In the normal course of business, the Company is a party to various legal claims, actions and complaints. Although it is not possible to predict with certainty whether the Company will ultimately be successful in any of these legal matters, or what the impact might be, the Company believes that the disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is subject to litigation, claims and assessments in the ordinary course of business, including disputes that may arise from intellectual property related matters. Many of our legal matters are covered in whole or in part by insurance. Management believes that any liability resulting from such matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

In December 2002, the Company filed suit against ICON Health and Fitness, Inc. ("ICON") in the Federal District Court, Western District of Washington (the "District Court") alleging infringement by ICON of the Company's Bowflex patents and trademarks. The Company sought injunctive relief, unquantified treble damages and its fees and costs. In October 2003, the District Court dismissed our patent infringement claims. The Company appealed the District Court's decision to the United States Court of Appeals for the Federal Circuit (the "Appeals Court") and in November 2003, the Appeals Court overruled the District Court and reinstated the patent infringement claims. The District Court has scheduled a trial on our patent infringement claims against ICON in April 2005.

In July 2003, the District Court ruled in favor of the Company on a motion for preliminary injunction on the issue of trademark infringement and entered an order barring ICON from using the trademark "CrossBow" on any exercise equipment. In its ruling, the District Court concluded that the Company showed "a probability of success on the merits and irreparable injury" on its trademark infringement claim. In August 2003, the Appeals Court granted ICON a temporary stay regarding the motion for a preliminary injunction, enjoining ICON from using the trademark "CrossBow." This stay allowed ICON to continue using the trademark "CrossBow" until a decision was issued by the Appeals Court. In June 2004, the Appeals Court issued its decision upholding the issuance of an injunction, and preventing ICON from selling exercise equipment using the trademark "CrossBow" pending trial on the trademark issue. No trial date has been set on the trademark claim.

ICON has been using the term "CrossBar" on certain exercise equipment in response to the litigation regarding its use of "CrossBow." In July 2004, the Company filed an additional suit against ICON in the District Court alleging that ICON has further infringed on the Bowflex trademark by the use of the "CrossBar" trademark. The Company seeks injunctive relief to prevent the sale of any fitness equipment that bears the trademark "CrossBar" as well as monetary damages.

In February 2004, the Company was notified that the Consumer Product Safety Commission (the "CPSC") is investigating whether the Company violated the reporting obligations of the Consumer Product Safety Act (the "Act") in connection with bench and lat tower incidents reported by users of the Bowflex Power Pro with lat tower attachment. Under the Act, the CPSC may assess penalties if it is determined that a product defect was not reported in accordance with the Act. The Company is fully cooperating with this investigation and believes the outcome will not have a material impact on its financial statements.

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

No matters were submitted to a vote of our stockholders during the quarter ended December 31, 2004.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Price of Our Common Stock

Our common stock is listed on the New York Stock Exchange and trades under the symbol "NLS." As of February 15, 2005, 33,165,508 shares of our common stock were issued and outstanding and held by approximately 7,600 beneficial stockholders.

The following table summarizes the high and low closing prices and dividends paid for each period indicated:

	High	Low	Dividends Paid
2004:			
Quarter 1	$17.08	$13.37	$ 0.10
Quarter 2	19.65	14.50	0.10
Quarter 3	23.10	16.95	0.10
Quarter 4	25.25	18.98	0.10
2003:			
Quarter 1	$16.75	$11.71	$ 0.10
Quarter 2	15.69	10.50	0.10
Quarter 3	13.90	10.00	0.10
Quarter 4	16.70	12.50	0.10

The total amount of dividends paid in 2004 and 2003 were $13.1 million and $13.0 million or $0.40 per share, respectively. Payment of any future dividends is at the discretion of our Board of Directors, which considers various factors, such as our financial condition, operating results, current and anticipated cash needs and expansion plans.

The following table provides information about the Company's equity compensation plan as of December 31, 2004:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,748,563	$ 15.54	219,384
Equity compensation plans not approved by security holders	—	—	—
Total	2,748,563	$ 15.54	219,384

For further information on the Company's equity compensation plans, see Note 1 and 2 of the Notes to Consolidated Financial Statements.

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data presented below for each year in the five-year period ended December 31, 2004 has been derived from our audited financial statements. The balance sheet data as of

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December 31, 2004 and 2003 and the statement of operations data for each of the years in the three year period ended December 31, 2004 have been derived from our audited financial statements included herein. The balance sheet data as of December 31, 2002, 2001, and 2000 and the statement of operations data for the years ended December 31, 2001 and 2000 have been derived from our audited financial statements not included in this document. The data presented below should be read in conjunction with our financial statements and notes thereto and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Comparability of financial results is affected by the acquisition of Schwinn Fitness in September 2001 and StairMaster in February 2002. For further discussion of financial information related to the acquisition of StairMaster, see Note 4 of the Notes to Consolidated Financial Statements. Also, certain amounts from previous years have been reclassified to conform to the 2004 presentation with no effect on previously reported consolidated net income or stockholders' equity.

In Thousands (except per share amounts)	2004	2003	2002	2001	2000
Statement of Operations Data					
Net sales	$ 523,837	$ 498,836	$ 584,650	$ 363,862	$ 223,927
Cost of sales	279,043	247,020	247,598	138,470	74,387
Gross profit	244,794	251,816	337,052	225,392	149,540
Operating expenses:					
Selling and marketing	156,577	149,245	145,258	99,813	73,510
General and administrative	31,033	37,098	26,017	15,574	8,804
Research and development	6,754	5,670	4,485	2,229	1,186
Royalties	5,968	7,987	10,108	7,363	4,979
Total operating expenses	200,332	200,000	185,868	124,979	88,479
Operating income	44,462	51,816	151,184	100,413	61,061
Other income:					
Interest income	1,357	839	1,561	4,024	3,632
Other - net	(172)	1,098	202	381	347
Total other income - net	1,185	1,937	1,763	4,405	3,979
Income before income taxes	45,647	53,753	152,947	104,818	65,040
Income tax expense	15,662	19,351	55,060	38,235	23,414
Net income	$ 29,985	$ 34,402	$ 97,887	$ 66,583	$ 41,626
Basic earnings per share *	$ 0.92	$ 1.06	$ 2.84	$ 1.89	$ 1.18
Diluted earnings per share*	$ 0.90	$ 1.04	$ 2.79	$ 1.85	$ 1.16
Cash dividends per share	$ 0.40	$ 0.40	$ —	$ —	$ —
Basic shares outstanding *	32,757	32,580	34,499	35,184	35,288
Diluted shares outstanding *	33,394	33,019	35,143	35,966	35,997
Balance Sheet Data					
Cash, cash equivalents, and short-term investments	$ 104,585	$ 72,634	$ 49,297	$ 51,709	$ 77,181
Working capital	169,549	138,711	109,023	84,366	72,520
Total assets	359,641	311,935	276,653	193,905	117,126
Stockholders' equity	252,036	226,128	202,423	147,414	92,867

* Reflects three-for-two stock splits effective August 2000, January 2001, and August 2001

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of the Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") is to provide readers with information necessary to understand the Company's financial condition, changes in financial condition, liquidity and capital resources, and results of operations, as well as our prospects for the future. Below is an index to the MD&A.

EXECUTIVE OVERVIEW

With the conclusion of 2004, we wrapped up an 18-month turnaround plan on schedule while continuing to increase our cash and short-term investment position. For the year, we grew revenue by 5.0%, achieving net sales of nearly $524 million and earnings per diluted share of $0.90 as the result of a robust direct business and strong sell through in our retail business. We believe we will generate double-digit revenue and earnings growth for the next three years as we press forward to become the global leader in health and fitness.

The business results we are achieving are a direct outcome of our commitment to our "FIT #1" operating principals – financial rigor, innovation, trust, and putting ourselves on a path to become the leader in every category where we compete.

We have made substantial progress positioning our Company for growth. We have four of the strongest brands in fitness today with Nautilus and Bowflex leading the way followed by Schwinn Fitness and Stairmaster. We have momentum through new product innovation, which accounted for approximately 30.0% of our revenue in 2004, compared to about 13.0% in 2003. We believe we are the only health and fitness company positioned across all channels of distribution, providing us an opportunity to leverage innovations and brands with consumers wherever they shop.

We believe 2004 was the year of the turnaround, not just to get our Company back on a growth track but to position our organization to become the global leader in health and fitness over the long-term. This required a sequenced, multi-faceted business plan. It included new leadership, new strategies, integrating past acquisitions, renewing our commitment to quality, entering new categories, forging customer relationships and investing in innovation. All of these steps have positioned us for 2005, the first year of our new three-year growth plan. The growth plan involves further increased investment in research and development, continuing the consolidation of our management information systems, investing in brand marketing and finally defending our intellectual property.

CRITICAL ACCOUNTING POLICIES

This MD&A is based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of our Board of Directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

Revenue Recognition

We recognize revenue when products are shipped and we have no significant remaining obligations, persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable, collectibility is reasonably assured or probable, and title and risk of loss have passed. Revenue is recognized net of applicable promotional discounts, rebates, and return allowances. In addition, revenue is recognized upon final installation for the Nautilus commercial equipment if we are responsible for installation. Return allowances, which reduce product revenue by our best estimate of expected product returns, are estimated using historical experience. In addition, from time to time, we arrange for leases or other financing sources to enable certain of our commercial customers to purchase our equipment. In the event that a guarantee of the commercial customer's lease obligation is made, we record a liability and corresponding reduction of revenue for the estimated fair value of the guarantee and then recognize revenue over the life of the lease obligation.

Stock-Based Compensation

We measure compensation expense for our stock-based employee compensation plans using the method prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*. In Note 1 of the Notes to Consolidated Financial Statements, we provide pro forma disclosures of net income and earnings per share as if the method prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, had been applied in measuring compensation expense. A change to recognize compensation expense for all options granted using a fair value approach, which will be required starting in July 2005 under SFAS No. 123R, *Share-Based Payment*, will have a significant impact on our results of operations.

Warranty Reserves

Accrued warranty expense includes the cost to manufacture (raw materials, labor and overhead) or purchase warranty parts from our suppliers as well as the cost to ship those parts to our customers. The cost of labor to install a warranted part on our manufactured commercial equipment is also included. The warranty reserve is based on our historical experience with each product. A warranty reserve is established for new products based on historical experience with similar products, adjusted for any technological advances in manufacturing or materials used. We track warranty claims by part and reason for claim in order to identify any potential warranty trends. The warranty trends are evaluated periodically with respect to future claims volume and nature of likely claims. Adjustments, if any are so indicated, are made to the warranty reserve to reflect our judgment regarding the likely effect of the warranty trends on future claims. If we were to experience a significant volume of warranty claims for a particular part or for a particular reason, we may need to make design changes to our product. If we believed it was necessary to implement those design changes to our installed base of products, our warranty costs could change materially. A change in warranty experience could have a significant impact on our financial position, results of operations and cash flows.

Legal Reserves

We are involved in various claims, lawsuits and other proceedings from time to time. Such litigation involves uncertainty as to possible losses we may ultimately realize when one or more future events occur or fail to occur. We accrue and charge to income estimated losses from contingencies when it is probable (at the balance sheet date) that an asset has been impaired or liability incurred and the amount of loss can be reasonably estimated. Differences between estimates recorded and actual amounts determined in subsequent periods are treated as changes in accounting estimates (i.e., they are reflected in the financial statements in the period in which they are determined to be losses, with no retroactive restatement). The Company estimates the probability of losses on legal contingencies based on the advice of internal and external counsel, the outcomes from similar litigation, the status of the lawsuits (including settlement initiatives), legislative developments, and other factors. Due to the numerous variables associated with these judgments and assumptions, both the precision and reliability of the resulting estimates of the related loss contingencies are subject to substantial uncertainties. We regularly monitor our estimated exposure to these contingencies and, as additional information becomes known, may change our estimates significantly. A significant change in our estimates, or a result that materially differs from our estimates, could have a significant impact on our financial position, results of operations and cash flows.

Sales Return Reserves

The sales return reserve is maintained based on our historical experience of direct-marketed product return rates during the period in which a customer can return a product for refund of the full purchase price, less shipping and handling in certain instances. The return periods for direct marketed product lines range from 30 days to six weeks depending on the specific product. We track product returns in order to identify any potential negative customer satisfaction trends. Our return reserve may be sensitive to a change in our customers' ability to pay during the trial period due to unforeseen economic circumstances and to different product introductions that might fulfill the customers' needs at a perceived better value. In our commercial/retail segment we also provide for estimated sales returns from customers as reductions to revenues and accounts receivable. The estimates are based on historical rates of product returns. Actual returns in any future period are inherently uncertain and thus may differ from the estimates. Any major change in the aforementioned factors may increase sales returns, which could have a significant impact on our financial position, results of operations and cash flows.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is maintained at a level based on our historical experience adjusted for any known uncollectible amounts. We periodically review the creditworthiness of our customers to help gauge collectibility. Our allowance is sensitive to changes in our customers' ability to pay due to unforeseen changes in the economy, including the bankruptcy of a major customer, our efforts to actively pursue collections, and increases in chargebacks. Any major change in the aforementioned factors may result in increasing the allowance for doubtful accounts, which could have a significant impact on our financial position, results of operations and cash flows.

Inventory Valuation

Our inventory is valued at the lower of cost (standard or average, depending on location) or market. Inventory adjustments are applied for any known obsolete or defective products. We periodically review inventory levels of our product lines in conjunction with market trends to assess salability of our products. Our assessment of necessary adjustments to market value of inventory is sensitive to changes in fitness technology and competitor product offerings driven by customer demand. Any major change in the aforementioned factors may result in reductions to market value of inventory below cost, which could have a significant impact on our financial position, results of operations and cash flows.

Intangible Asset Valuation

Currently, intangible assets consist predominantly of the Nautilus, Schwinn, and StairMaster trademarks and goodwill associated with the acquisition of Schwinn Fitness. Management estimates affecting these trademark and goodwill valuations include determination of useful lives and estimates of future cash flows and fair values to perform an impairment analysis on an annual basis or more frequently if additional circumstances arise. The useful lives assigned by management to the Nautilus, Schwinn, and StairMaster trademarks are indefinite, 20 years, and indefinite, respectively. Any major change in the useful lives and/or the determination of an impairment associated with the valuation of the aforementioned intangible assets may result in asset value write-downs, which could have a significant impact on our results of operations in the period or periods in which the asset write-down is recorded.

Income Tax Provision

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Inherent in the measurement of these deferred balances are certain judgments and interpretations of existing tax law and other published guidance as applied to our operations. When it is more likely than not that all or some portion of specific deferred tax assets will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that are determined not to be realizable. No valuation allowance has been provided for deferred tax assets, since we anticipate the full amount of these assets should be realized in the future. Accordingly, if the Company's facts or financial results were to change thereby impacting the likelihood of realizing the deferred tax assets, judgment would have to be applied to determine changes to the amount of the valuation allowance required to be in place on the financial statements in any given period.

As a matter of course, the Company may be audited by federal, state and foreign tax authorities. We provide reserves for potential exposures when we consider it probable that a taxing authority may take a sustainable position on a matter contrary to our position. We evaluate these reserves, including interest thereon, on a quarterly basis to insure that they have been appropriately adjusted for events that may impact our ultimate payment for such exposures. Management believes that an appropriate liability has been established for estimated exposures; however, actual results may differ materially from these estimates. To the extent the audits or other events result in a material adjustment to the accrued estimates, the effect would be recognized in income tax expense (benefit) in the Consolidated Statement of Income in the period of the event.

In 2004 the Company derived tax benefits from an exclusion provided under U.S. income tax laws with respect to certain extraterritorial income attributable to foreign trading gross receipts ("FTGRs"). This exclusion was repealed as part of the American Jobs Creation Act of 2004 (the "AJCA"), which was enacted on October 22, 2004. The AJCA provides for a phase-out such that the exclusion for the Company's otherwise qualifying FTGRs generated in fiscal 2005 and 2006 will be limited to 80% and 60%, respectively. No exclusion will be available in fiscal years 2007 and thereafter.

The AJCA also provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. Under the guidance in Financial Accounting Standards Board ("FASB") Staff Positions ("FSP") FAS 109-1, *Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*, the deduction will be treated as a "special deduction" as described in SFAS No. 109, *"Accounting for Income Taxes."* As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. The impact of this deduction will be reported in the period in which the deduction is claimed on our tax return.

In 2005, the Company is evaluating the effects of indefinitely reinvesting undistributed earnings of our foreign subsidiaries. In prior years, the Company provided U.S. deferred income taxes on all undistributed earnings from non-US subsidiaries. We expect to complete our evaluation in 2005.

RESULTS OF OPERATIONS

This MD&A should be read in conjunction with our Consolidated Financial Statements and related notes included elsewhere in this report. 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 that operate in evolving markets. We may not be able to successfully address these risks and difficulties and, consequently, we cannot assure you of any future growth or profitability. For more information, see our discussion of Risks and Uncertainties beginning on page 29.

The following tables present certain consolidated financial data as a percentage of net sales and statement of operations data comparing results for 2004, 2003, and 2002:

Statement of Operations Data

	Year Ended December 31,		
	2004	2003	2002
Net sales	100.0%	100.0%	100.0%
Cost of sales	53.3	49.5	42.3
Gross profit	46.7	50.5	57.7
Operating expenses:			
Selling and marketing	29.9	29.9	24.8
General and administrative	5.9	7.4	4.5
Research and development	1.3	1.2	0.8
Royalties	1.1	1.6	1.7
Total operating expenses	38.2	40.1	31.8
Operating income	8.5	10.4	25.9
Other income - net	0.2	0.4	0.3
Income before income taxes	8.7	10.8	26.2
Income tax expense	3.0	3.9	9.5
Net income	5.7%	6.9%	16.7%

Statement of Operations Data

	Year Ended December 31,						
				2004-2003		2003-2002	
(In Thousands)	2004	2003	2002	$ change	% change	$ change	% change
Net sales	$ 523,837	$ 498,836	$ 584,650	$ 25,001	5.0%	$ (85,814)	-14.7%
Cost of sales	279,043	247,020	247,598	32,023	13.0%	(578)	-0.2%
Gross profit	244,794	251,816	337,052	(7,022)	-2.8%	(85,236)	-25.3%
Operating expenses:							
Selling and marketing	156,577	149,245	145,258	7,332	4.9%	3,987	2.7%
General and administrative	31,033	37,098	26,017	(6,065)	-16.3%	11,081	42.6%
Research and development	6,754	5,670	4,485	1,084	19.1%	1,185	26.4%
Royalties	5,968	7,987	10,108	(2,019)	-25.3%	(2,121)	-21.0%
Total operating expenses	200,332	200,000	185,868	332	0.2%	14,132	7.6%
Operating income	44,462	51,816	151,184	(7,354)	-14.2%	(99,368)	-65.7%
Other income - net	1,185	1,937	1,763	(752)	-38.8%	174	9.9%
Income before income taxes	45,647	53,753	152,947	(8,106)	-15.1%	(99,194)	-64.9%
Income tax expense	15,662	19,351	55,060	(3,689)	-19.1%	(35,709)	-64.9%
Net income	$ 29,985	$ 34,402	$ 97,887	$ (4,417)	-12.8%	$ (63,485)	-64.9%

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2003

Net Sales

Net sales were $523.8 million for 2004 compared to $498.8 million for 2003, an increase of $25.0 million or 5.0%.

Sales within our direct segment were $262.1 million in 2004, an increase of 6.1% compared with 2003. Our direct segment accounted for 50.0% of our aggregate net sales in 2004, as compared to 49.5% of net sales in 2003. The sales growth in our direct segment occurred primarily in the second half of the year. The growth was due to several factors, including product innovation in the Bowflex home-gym line, strong demand for the less than two year old Bowflex TreadClimber cardio products, and the introduction of Bowflex SelectTech dumbbells, coupled with more effective advertising placement and an increase in consumer financing approval rates.

Sales within our commercial/retail segment were $261.8 million in 2004 as compared to $251.9 million, an increase of $9.9 million or 3.9%. The increase in sales within the commercial/retail segment was primarily attributable to a $7.1 million increase in the sale of Bowflex branded products within the retail side of the business. Additionally our international operations that handle sales outside of the America's performed strongly, increasing net sales by $7.6 million to $43.9 million in 2004 from $36.3 million in 2003.

Gross Profit

Gross profit decreased by $7.0 million to $244.8 million in 2004 as compared to $251.8 million in 2003, or a 2.8% decline. The gross profit margin decreased to 46.7% in 2004 from 50.5% in 2003. The gross profit margin within our direct segment was 65.9% in 2004 compared to 70.1% in 2003. Approximately 1.3 percentage points of the decline was due to increased promotions to drive sales growth. Approximately 1.2 percentage points of the decline was due to a change in sales mix from the higher margin Bowflex home gym products to the TreadClimber and SelectTech products. As we continue to sell more units of the TreadClimber we believe our TreadClimber margins will increase due to the leveraging of our costs. Additionally, approximately 1.1 percentage points of the decline was due to increased shipping costs due to the combination of carrier rate increase and certain sales promotions.

The gross profit margin within our commercial/retail segment was 27.5% in 2004, compared to 31.3% in 2003. The decline was due to the expansion of sales into large volume, lower margin retail customers consistent with our diversification strategy along with increased shipping costs due to carrier rates. This decline was partially offset by the overall increase in commercial/retail sales which allowed us to leverage our fixed costs.

Operating Expenses

Selling and Marketing

Selling and marketing expenses were $156.6 million for 2004 compared to $149.3 million for 2003, an increase of $7.3 million or 4.9%. As a percentage of net sales, overall selling and marketing expenses remained consistent in 2004 as compared to 2003 at 29.9%.

Due to strong consumer demand for our Bowflex products and higher consumer financing approval rates selling and marketing expenses within our direct segment remained consistent at 48.9% of net sales in 2004 and 2003. The strong consumer demand allowed the Company to reduce the direct segment advertising expense by 6.3% while achieving the same sales volume. These savings were offset by an increase in consumer financing fees due to stronger financing utilization by our direct consumers of 63.8% in 2004 compared to 43.0% in 2003.

Selling and marketing expenses within our commercial/retail segment were consistent at 10.9% of net sales in 2004, compared to 11.3% in 2003.

General and Administrative

General and administrative expenses were $31.0 million for 2004 compared to $37.1 million for 2003, a decrease of $6.1 million or 16.3%. As a percentage of net sales, general and administrative expenses decreased to 5.9% in 2004 as compared to 7.4% in 2003.

Our direct segment general and administrative expenses declined by $2.7 million from $13.2 million in 2003 to $10.5 million in 2004 due primarily to wage and consulting costs associated with the implementation of our information systems which was completed towards the end of 2003. Our commercial/retail segment general and administrative expenses remained consistent at $9.5 million in 2004 as compared to $9.6 million in 2003. Corporate general and administrative expenses decreased $3.3 million due largely to a $1.8 million one-time gain on the sale of property incurred during the third quarter of 2004. Legal related costs also decreased by $1.5 million from 2003 to 2004.

Research and Development

Research and development increased $1.1 million to $6.8 million in 2004 from $5.7 million in 2003. The increase in research and development was due primarily to additional employees added to support the ongoing innovation initiative within our Company.

Royalties

Royalty expense decreased 25.3% to $6.0 million in 2004 as compared to $8.0 million in 2003. Our direct and commercial/retail segments have several agreements under which we are obligated to pay royalty fees on certain products. The decrease in our royalty expense was primarily attributable to the April 2004 expiration of a royalty agreement related to the Bowflex patents. This decrease in Bowflex related royalties was partially offset by royalty expense associated with our TreadClimber and elliptical product sales. We are obligated to pay royalties, at the rate of 3% of TreadClimber sales, to the inventor of the main patent on the TreadClimber until this patent expires on December 13, 2013.

Effective Income Tax Rates

The effective income tax rate decreased from 36.0% in 2003 to 34.3% in 2004. The decrease in the 2004 effective income tax rate is primarily due to tax reserve adjustments as a result of favorable resolutions of certain federal and state income tax issues, tax advantaged investment income and research and development credits. As more fully disclosed in Note 10 to the Consolidated Financial Statements, the 2004 effective income tax rate reflects a benefit for certain income exclusions provided for under U.S. income tax laws. As discussed in Note 10 to the Consolidated Financial Statements, this exclusion has been repealed and will be phased out commencing 2005.

Net Income

For the reasons discussed above, net income declined to $30.0 million in 2004 from $34.4 million in 2003, a decrease of 12.8%. Net income in the second half of the year actually increased by 35% compared to the prior year as we began experiencing the growth benefits of our turnaround strategy.

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002

Net Sales

Net sales decreased by 14.7% in 2003 compared to 2002. We believe this was primarily due to increased competition and higher advertising costs due to increased demand for advertising time. These factors reduced sales conversion rates for our direct-marketed products.

Sales within our direct segment were $246.9 million in 2003, a decrease of 37.1% compared with 2002. Our direct segment accounted for 49.5% of our aggregate net sales in 2003, down from 67.2% in 2002. The decrease in direct segment sales can be attributed to a combination of factors including increased competition for our

Bowflex product line and managing our advertising spending in a higher advertising cost environment to optimize profitability. We believe competing products adversely affected demand for our Bowflex products. Additionally, advertising costs rose when comparing 2003 to 2002, resulting in lower sales of direct-marketed products for comparable advertising spending. As a percentage of sales, selling and marketing expense for the direct segment was 48.9% in 2003 compared to 30.9% in 2002.

Sales within our commercial/retail segment were $251.9 million in 2003, an increase of 31.2% over 2002. Excluding our acquisition of StairMaster, commercial/retail segment sales increased 36.5% during 2003 compared to 2002. The increase in sales within the commercial/retail segment was primarily attributable to the introduction of the Bowflex to the retail side of the business, which equated to sales of $49.2 million. We were able to leverage the hundreds of millions of dollars spent on television advertising of the Bowflex product line to create consumer demand in the retail sales channel where many consumers prefer buying premium fitness products. In 2003, our commercial/retail segment accounted for 50.5% of our net sales, up from 32.8% in 2002, as we continued to execute our strategy of expanding our presence, product lines, and brands across all our sales channels, especially within the commercial/retail segment.

Gross Profit

Gross profits decreased 25.3% in 2003 compared to 2002. As sales of inherently lower margin products in the commercial/retail segment continued to grow as a percentage of total sales, our overall gross profit margin decreased to 50.5% in 2003, compared to 57.7% in 2002.

The gross profit margin within our direct segment was 70.1% in 2003 compared to 73.6% in 2002. Direct segment margin was significantly impacted by $3 million of product safety reinforcement costs associated with the Bowflex Power Pro that was announced by our Company and the Consumer Product Safety Commission (“CPSC”) in January 2004. In addition, direct segment gross profit margin was negatively impacted by declining sales resulting in higher fixed costs per sale and a change in sales mix from the higher margin Bowflex to the TreadClimber. The increase in gross profit margin within our commercial/retail segment to 31.3% in 2003, compared with 25.0% in 2002, was primarily due to sales of Bowflex products through the retail channel.

Operating Expenses

Selling and Marketing

Selling and marketing expenses increased 2.7% in 2003 compared to 2002. As a percentage of net sales, overall selling and marketing expenses increased to 29.9% in 2003 from 24.8% in 2002. Selling and marketing expenses within our direct segment were 48.9% of net sales in 2003, compared to 30.9% in 2002. Selling and marketing expenses within our commercial/retail segment were 11.3% of net sales in 2003, compared to 12.4% in 2002. The overall increase in selling and marketing was mainly due to reduced effectiveness of our direct advertising campaigns, partially offset by leveraging the direct channel advertising investment in the retail channel.

We experienced an increase in direct marketing advertising spending during 2003 in response to declines in our sales conversion rates coupled with a higher advertising cost environment. We believe the decline in conversion was a result of increased competition. In addition, depreciation associated with our newly implemented customer relationship management information system also contributed to the increase in selling and marketing costs.

General and Administrative

General and administrative expenses increased 42.6% in 2003 compared to 2002. As a percentage of net sales, general and administrative expenses increased to 7.4% in 2003 from 4.5% in 2002.

Our direct segment accounted for $6.6 million of the $11.1 million increase due primarily to depreciation, consulting costs, and wages associated with our newly implemented computer information systems. Our commercial/retail segment general and administrative expenses declined by $0.8 million due mostly to cost savings associated with the integration of the Schwinn Fitness and StairMaster businesses that we acquired in September 2001 and February 2002, respectively. Corporate general and administrative expenses increased $5.2 million due primarily to additional legal related expenses.

Royalties

Royalty expense decreased 21.0% in 2003 from 2002. Our direct and commercial/retail segments have several agreements under which we are obligated to pay royalty fees on certain products. The decrease in our royalty expense was primarily attributable to the decreased sales of our Bowflex products. This decrease in Bowflex-related royalties was partially offset by royalty expense associated with our TreadClimber product sales.

Effective Income Tax Rates

Income tax expense decreased 64.9% in 2003 due to the decline in our income before taxes. The effective income tax rate remained at 36.0% in 2003 and 2002.

Net Income

For the reasons discussed above, net income declined to $34.4 million in 2003 from $97.9 million in 2002, a decrease of 64.9%.

QUARTERLY RESULTS OF OPERATIONS

The following table presents our operating results for each of the quarters in the periods ended December 31, 2004 and 2003. The information for each of these quarters is unaudited and has been prepared on the same basis as the audited financial statements appearing elsewhere in this Annual Report on Form 10-K. In the opinion of management, all necessary adjustments have been included to present fairly the unaudited quarterly results when read together with our audited financial statements and the related notes. Certain amounts from previous periods have been reclassified to conform to the 2004 full-year presentation with no effect on previously reported consolidated net income or stockholders' equity. These operating results are not necessarily indicative of the results of any future period. Due to diversification towards our commercial/retail segment, we expect heightened seasonality in our business. We expect sales in the second quarter to be weakest while the fourth quarter should be our strongest. We expect the third quarter will generally be stronger than the first quarter.

	QUARTER ENDED				
In Thousands (except per share)	**March 31**	**June 30**	**September 30**	**December 31**	**Total**
Fiscal 2004:					
Net sales	$ 130,896	$ 100,179	$ 123,182	$ 169,580	$ 523,837
Gross profit	56,856	49,321	58,605	80,012	244,794
Operating income	9,819	2,721	11,278	20,644	44,462
Net income	6,437	1,935	7,455	14,158	29,985
Earnings per share:					
Basic	0.20	0.06	0.23	0.43	0.92
Diluted	0.19	0.06	0.22	0.42	0.90
Fiscal 2003:					
Net sales	$ 129,449	$ 100,602	$ 115,958	$ 152,827	$ 498,836
Gross profit	71,311	53,532	57,287	69,686	251,816
Operating income	21,491	6,165	9,787	14,373	51,816
Net income	13,689	4,698	6,643	9,372	34,402
Earnings per share:					
Basic	0.42	0.14	0.20	0.29	1.06
Diluted	0.42	0.14	0.20	0.28	1.04

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our business primarily from cash generated by our operating activities. During 2004, our operating activities generated $47.0 million in net cash, which contributed to an aggregate $104.6 million balance in cash, cash equivalents and short-term investments at year end, compared with $43.7 million in net cash generated by our operating activities in 2003. Working capital was $169.5 million at December 31, 2004 compared to $138.7 million at December 31, 2003, largely due to increased short-term investments as a result of net income for the period. The $20.1 million increase in trade receivables and $4.0 million decrease in inventory levels can primarily be attributed to supply chain issues resulting in many shipments occurring later in the fourth quarter of 2004 as compared with 2003. The $23.0 million increase in trade payables is primarily due to the timing of inventory purchases and payments for those purchases. The $4.0 million decrease in accrued liabilities can primarily be attributed to the completion of the product recall which was accrued at December 31, 2003.

Net cash used in investing activities was $42.6 million in 2004 compared with net cash used in investing activities in 2003 of $40.8 million. The change in cash flow from investing activities is primarily due to $9.0 million for capital expenditures primarily consisting of building improvements, manufacturing equipment and information systems and related equipment compared to $7.0 million in 2003. Short-term investments increased by $34.0 million in 2004 compared to $33.7 million in 2003.

Net cash used in financing activities was $6.5 million in 2004 compared to $13.5 million in 2003. The primary difference between the years related to cash received from the exercise of stock options of $6.6 million in 2004 as compared to $1.0 million in 2003. During 2004, the Company paid $13.1 million in dividends compared to $13.0 million during 2003.

We maintain a $10 million line of credit with a lending institution. 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 the covenants applicable to the line of credit, and there is no outstanding balance under the line. At December 31, 2004 and 2003, the Company had $8.1 million and $5.6 million, respectively in stand by letters of credit with Asian vendors reducing the available balance of the $10.0 million line of credit.

We believe our existing cash balances, cash generated from operations and borrowings available under our line of credit, will be sufficient to meet our capital requirements for the foreseeable future.

The Company’s contractual obligations and commercial commitments (as defined in Item 303(a)(5) of Regulation S-K under the Securities Exchange Act of 1934) as of December 31, 2004 are as follows:

	Payments due by period				
(In Thousands)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt obligations	$ —	$ —	$ —	$ —	$ —
Capital lease obligations	—	—	—	—	—
Operating lease obligations	28,704	3,376	7,487	5,827	12,014
Purchase obligations	70,742	70,671	65	6	—
Other long-term liabilities *	200	—	200	—	—
Total	$99,646	$ 74,047	$7,752	$5,833	$ 12,014

* Certain contractual obligations and commercial commitments are excluded from this table because they require imprecise measurement or are of a contingent nature (e.g. off-balance sheet arrangements described below).

Due to the majority of our inventory being sourced from Asia, the Company has long lead times for inventory purchases and needs to secure factory capacity from our vendors in advance. As a result, approximately $64.7 million of the $70.7 million in purchase obligations is for inventory purchases. This inventory is predominately related to anticipated sales in the first half of 2005.

OFF-BALANCE SHEET ARRANGEMENTS

From time to time, we arrange for leases or other financing sources with third parties to enable certain of our commercial customers to purchase our equipment. While most of these financings are without recourse, in certain cases we may offer a guaranty or other recourse provisions. The purpose of these guaranties is to increase our selling opportunities to commercial customers that would not otherwise be able to obtain financing to purchase our equipment. At December 31, 2004 and 2003, the maximum contingent liability under all recourse provisions was approximately $4.4 million and $3.0 million, respectively. Refer to Note 1 of the Notes to Consolidated Financial Statements for further discussion of the accounting treatment for these arrangements. We expect an increase in these types of arrangements going forward.

INFLATION AND PRICE CHANGES

Although we cannot accurately anticipate the effect of inflation on our operations, with the exception of steel and fuel prices discussed below, we do not believe that inflation has had, or is likely in the foreseeable future to have, a material adverse effect on our financial position, results of operations or cash flows. However, increases in inflation over historical levels or uncertainty in the general economy could decrease discretionary consumer spending for products like ours. Very little of our revenue variation from prior periods is attributable to price changes.

During 2004, we experienced increases in the price of steel, a major component of our products, and in distributions costs as the result of an increase in the price of fuel. We expect that to the extent costs continue to increase our gross margins in 2005 will continue to be negatively impacted by increased steel and fuel prices.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued SFAS No. 151, *"Inventory Costs, an amendment of ARB No. 43, Chapter 4."* SFAS No. 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005. The Company is currently evaluating the provisions of SFAS No. 151 and does not expect that the adoption will have a material impact on the Company's Consolidated Financial Statements.

In December 2004, the FASB issued SFAS No. 123R *"Share-Based Payment,"* which requires companies to recognize in their statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees. SFAS No. 123R is effective for interim or annual periods beginning after June 15, 2005. Accordingly, we will adopt SFAS No. 123R in our third quarter of 2005. The Company is evaluating the impact that SFAS No. 123R will have on the Company's Consolidated Financial Statements.

In December 2004, the FASB issued SFAS No.153, *"Exchanges of Nonmonetary Assets—an Amendment of APB No. 29."* The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have "commercial substance." This standard is effective for nonmonetary asset exchanges occurring after July 1, 2005. The adoption of this standard is not expected to impact the Company's Consolidated Financial Statements.

The AJCA was enacted on October 22, 2004. The AJCA repeals an export incentive, creates a new deduction for qualified domestic manufacturing activities and includes a special one-time deduction of 85% of certain foreign earnings repatriated to the U.S.

The FASB issued FSP FAS 109-1, *"Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of*

2004" (FSP FAS 109-1) on December 21, 2004. In accordance with FSP FAS 109-1, the Company will treat the deduction for qualified domestic manufacturing activities as a reduction of the income tax provision in future years as realized. The deduction for qualified domestic manufacturing activities did not impact the Company's Consolidated Financial Statements in 2004, and this deduction combined with the phase-out of the export incentive is not expected to have a material impact on the Company's effective tax rate in 2005.

In December 2004, the FASB issued FSP FAS 109-2, *"Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004,"* allowing companies additional time to evaluate the effect of the AJCA on plans for reinvestment or repatriation of foreign earnings. The adoption of this standard is not expected to have a material impact on the Company's effective tax rate in 2005.

RISKS AND UNCERTAINTIES

Because of the following factors, as well as other variables affecting our operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

A significant decline in availability of media time or fluctuating advertising rates may hinder our ability to effectively market our products and may reduce profitability.

We depend primarily on 30 and 60 second "spot" television commercials and 30-minute television "infomercials" to market and sell our direct-marketed products. Consequently, a marked increase in the price we must pay for our preferred media time or a reduction in its availability may adversely impact our financial performance.

A decline in consumer spending due to unfavorable economic conditions could hinder our product revenues and earnings.

The success of each of our products depends substantially on the amount of discretionary funds available to consumers and their purchasing preferences. Economic and political uncertainties could adversely impact the U.S. and international economic environment. A decline in general economic conditions could further depress consumer spending, especially discretionary spending for premium priced products like ours. These poor economic conditions could in turn lead to substantial decreases in our net sales.

A decline in our ability to effectively develop, market and sell future products could adversely affect our ability to generate future revenues and earnings.

Our future success depends on our ability to develop or acquire the rights to, and then effectively market and sell, new products that create and respond to new and evolving consumer demands. Accordingly, our net sales and profitability may be harmed if we are unable to develop, or acquire the rights to, new and different products that satisfy our marketing criteria. In addition, any new products that we market may not generate sufficient net sales or profits to recoup their development or acquisition costs.

We also may not be able to successfully acquire intellectual property rights or potentially prevent others from claiming that we have violated their proprietary rights when we launch new products. We could incur substantial costs in defending against such claims, even if they are without basis, and we could become subject to judgments requiring us to pay substantial damages.

A delay in getting foreign sourced products through customs in a timely manner could result in cancelled orders and unanticipated inventory accumulation.

Many of our imported products are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the United States or into our other sales markets. The countries in which our products are produced or sold may adjust or impose new quotas, duties, tariffs or other restrictions, any of which could have a material adverse effect on us.

Our business depends on our ability to source and distribute products in a timely manner. As a result, we rely on the free flow of goods through open and operational ports worldwide. Labor disputes at various ports create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes, or other disruptions during our peak importing seasons, and could have a material adverse effect on our business, potentially resulting in cancelled orders by customers, unanticipated inventory accumulation, and reduced revenues and earnings.

Any failure by us to manage acquisitions and other significant transactions successfully could harm our financial results, business and prospects.

As we have done in the past, we may seek to acquire other businesses in the future. Integrating acquired businesses into our operations poses significant challenges, particularly with respect to corporate cultures and management teams. Failure to successfully effect the integration could adversely impact the revenue, earnings and business synergies we expect from the acquisitions. In addition, the process of integrating acquired businesses may be disruptive to our operations and may cause an interruption of, or a loss of momentum in, our core business.

Our future integration efforts may be jeopardized, and our actual return on investment from such acquisitions may be lower than anticipated, as a result of various factors, including the following:

- Challenges in the successful integration of the products, services or personnel of the acquired business into our operations;
- Loss of employees or customers that are key to the acquired business;
- Time and money spent by our management team focusing on the integration, which could distract it from our core operations;
- Our potential lack of experience in markets of the acquired businesses;
- Possible inconsistencies in standards, controls, procedures and policies among the combined companies and the need to implement our financial, accounting, information and other systems; and
- The need to coordinate geographically diverse operations.

Our failure or inability to protect our intellectual property could significantly harm our competitive position.

Protecting our intellectual property is an essential factor in maintaining our competitive position in the health and fitness industry. If we do not or are unable to adequately protect our intellectual property, our sales and profitability could be adversely affected. We currently hold a number of patents and trademarks and have several patent and trademark applications pending. However, our efforts to protect our proprietary rights may be inadequate and applicable laws provide only limited protection.

The introduction of lower priced competing products could significantly harm our ability to generate future revenues and earnings.

Our products are sold in highly competitive markets with limited barriers to entry. As a result the introduction of lower priced competing products by our competitors could result in a significant decline in our net sales.

Unpredictable events and circumstances relating to our international operations, including our use of foreign manufacturers could result in cancelled orders, unanticipated inventory accumulation, and reduced revenues and earnings.

A portion of our revenue is derived from sales outside the United States. For the year ended December 31, 2004, international sales represented approximately 13% of consolidated net sales. In addition, a substantial portion of our products is manufactured outside of the United States. Accordingly, our future results could be materially adversely affected by a variety of factors, including changes in foreign currency exchange rates, changes in a specific country's or region's political or economic conditions, trade restrictions, import and export licensing requirements, the overlap of different tax structures or changes in international tax laws, changes in regulatory requirements, compliance with a variety of foreign laws and regulations and longer payment cycles in certain countries.

Government regulatory actions could disrupt our marketing efforts and product sales.

Various federal, state and local government authorities, including the Federal Trade Commission and the CPSC, regulate our marketing efforts and products. Our sales and profitability could be significantly harmed if any of these authorities commence a regulatory enforcement action that interrupts our marketing efforts, results in a product recall or negative publicity, or requires changes in product design.

The CPSC is investigating whether the Company violated the reporting obligations of the Consumer Product Safety Act. As detailed in Item 3, "Legal Proceedings," penalties are possible in connection with this investigation.

In order to be successful, we must retain and motivate key employees, and failure to do so could have an adverse impact on our business.

Our future success will depend in part on the continued service of key personnel, particularly Gregg Hammann, our President, Chief Executive Officer and Chairman of the Company's Board of Directors. Our future success will also depend on our ability to attract and retain key managers, product development engineers, sales people, and others. We face intense competition for such individuals worldwide. Not being able to attract or retain these employees could have a material adverse effect on revenues and earnings.

Item 7A. 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 individual debt issuer and require certain minimum ratings for debt instruments that we purchase.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk from currency fluctuations, mainly in Europe. Given the relative size of the Company's current foreign operations, the Company does not believe the exposure to changes in applicable foreign currencies to be material, such that it could have a significant impact on our current or near- term financial position, results of operations, or cash flows. Management estimates the maximum impact on stockholders' equity of a 10% change in any applicable foreign currency to be $1.5 million.

Interest Rate Risk

The Company has financed its growth through cash generated from operations. At December 31, 2004, the Company had no outstanding borrowings and was not subject to any related interest rate risk.

The Company invests in liquid debt instruments purchased with maturity dates of less than one year. Due to the short-term nature of those investments, management believes that any reasonably possible near-term changes in related interest rates would not have a material impact on the Company's financial position, results of operations, or cash flows.

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Item 8. Consolidated Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Nautilus, Inc.
Vancouver, Washington

We have audited the accompanying consolidated balance sheets of Nautilus, Inc. (formerly The Nautilus Group, Inc.) and subsidiaries (the “Company”) as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders’ equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Nautilus, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2005 expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

DELOITTE & TOUCHE LLP

Portland, Oregon
March 14, 2005

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NAUTILUS, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(In Thousands, Except Share Data)

	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 19,266	$ 21,352
Short-term investments	85,319	51,282
Trade receivables (less allowance for doubtful accounts of $3,252 and $2,686 in 2004 and 2003, respectively)	95,593	75,492
Inventories	49,104	53,129
Prepaid expenses and other current assets	9,427	6,049
Short-term notes receivable	2,503	2,362
Current deferred tax assets	4,661	4,646
Total current assets	265,873	214,312
PROPERTY, PLANT AND EQUIPMENT, net	46,350	50,602
GOODWILL	29,755	29,755
OTHER ASSETS, net	17,663	17,266
TOTAL ASSETS	$359,641	$311,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 57,861	$ 34,879
Accrued liabilities	24,685	28,648
Income taxes payable	10,803	8,488
Royalty payable to stockholders	18	2,133
Customer deposits	2,957	1,453
Total current liabilities	96,324	75,601
NONCURRENT DEFERRED TAX LIABILITIES	11,081	10,206
OTHER NONCURRENT LIABILITIES	200	—
COMMITMENTS AND CONTINGENCIES (Notes 9 and 14)		
STOCKHOLDERS' EQUITY:		
Common stock - 75,000,000 shares authorized; no par value; issued and outstanding, 33,147,758 and 32,605,448 shares in 2004 and 2003, respectively	10,682	2,828
Unearned stock compensation	(1,204)	(1,544)
Retained earnings	238,474	221,580
Accumulated other comprehensive income	4,084	3,264
Total stockholders' equity	252,036	226,128
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$359,641	$311,935

See notes to consolidated financial statements.

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NAUTILUS, INC.

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(In Thousands, Except Share and Per Share Data)

	2004	2003	2002
NET SALES	$ 523,837	$ 498,836	$ 584,650
COST OF SALES	279,043	247,020	247,598
Gross profit	244,794	251,816	337,052
OPERATING EXPENSES:			
Selling and marketing	156,577	149,245	145,258
General and administrative	31,033	37,098	26,017
Research and development	6,754	5,670	4,485
Related-party royalties	1,843	6,556	9,089
Third-party royalties	4,125	1,431	1,019
Total operating expenses	200,332	200,000	185,868
OPERATING INCOME	44,462	51,816	151,184
OTHER INCOME (EXPENSE):			
Interest income	1,357	839	1,561
Other, net	(172)	1,098	202
Total other income - net	1,185	1,937	1,763
INCOME BEFORE INCOME TAXES	45,647	53,753	152,947
INCOME TAX EXPENSE	15,662	19,351	55,060
NET INCOME	$ 29,985	$ 34,402	$ 97,887
BASIC EARNINGS PER SHARE	$ 0.92	$ 1.06	$ 2.84
DILUTED EARNINGS PER SHARE	$ 0.90	$ 1.04	$ 2.79
Weighted average shares outstanding:			
Basic shares outstanding	32,756,766	32,579,533	34,499,482
Diluted shares outstanding	33,394,160	33,018,694	35,142,794

See notes to consolidated financial statements.

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NAUTILUS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(In Thousands, Except Share Data)

	Common Stock		Unearned Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
BALANCES, JANUARY 1, 2002	34,954,790	$ 4,900	$ —	$ 142,637	$ (123)	$ 147,414
Net income	—	—	—	97,887	—	97,887
Cumulative translation adjustment	—	—	—	—	1,308	1,308
Comprehensive income						99,195
Options exercised	362,227	2,727	—	—	—	2,727
Stock repurchased	(2,843,120)	(10,683)	—	(39,286)	—	(49,969)
Tax benefit of exercise of nonqualified options	—	3,056	—	—	—	3,056
BALANCES, DECEMBER 31, 2002	32,473,897	—	—	201,238	1,185	202,423
Net income	—	—	—	34,402	—	34,402
Cumulative translation adjustment	—	—	—	—	2,079	2,079
Comprehensive income						36,481
Dividends paid	—	—	—	(13,030)	—	(13,030)
Unearned stock compensation	—	1,700	(1,700)			—
Amortization of unearned stock compensation	—	—	156	—	—	156
Options exercised	231,851	979	—	—	—	979
Stock repurchased	(100,300)	(392)	—	(1,030)	—	(1,422)
Tax benefit of exercise of nonqualified options	—	541	—	—	—	541
BALANCES, DECEMBER 31, 2003	32,605,448	2,828	(1,544)	221,580	3,264	226,128
Net income	—	—	—	29,985	—	29,985
Cumulative translation adjustment	—	—	—	—	820	820
Comprehensive income						30,805
Dividends paid	—	—	—	(13,091)	—	(13,091)
Amortization of unearned stock compensation	—	—	340	—	—	340
Options exercised	542,310	6,569	—	—	—	6,569
Tax benefit of exercise of nonqualified options	—	1,285	—	—	—	1,285
BALANCES, DECEMBER 31, 2004	33,147,758	$ 10,682	$ (1,204)	$ 238,474	$ 4,084	$ 252,036

See notes to consolidated financial statements.

NAUTILUS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(In Thousands)

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 29,985	$ 34,402	$ 97,887
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,972	12,274	6,316
(Decrease) increase in allowance for notes receivable	(594)	594	—
Amortization of unearned stock compensation	340	156	—
(Gain) loss on disposal of property, plant and equipment	(1,214)	119	126
Tax benefit of exercise of nonqualified options	1,285	541	3,056
Deferred income taxes	860	(663)	4,980
Changes in assets and liabilities, net of the effect of acquisitions:			
Trade receivables	(19,702)	(23,966)	(16,392)
Inventories	4,693	11,650	(11,109)
Prepaid expenses and other current assets	(1,036)	(837)	(2,307)
Trade payables	22,774	(6,672)	15,356
Income taxes payable	2,261	3,178	1,376
Accrued liabilities and royalty payable to stockholders	(5,991)	12,214	1,724
Customer deposits	1,373	731	(453)
Net cash provided by operating activities	47,006	43,721	100,560
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment	(9,043)	(7,017)	(31,542)
Proceeds from sale of property, plant and equipment	641	54	31
Net (increase) decrease in other assets	(596)	(640)	7
Acquisition cost of StairMaster, net of cash acquired	—	—	(24,131)
Purchases of short-term investments	(126,143)	(99,833)	(39,360)
Proceeds from maturities of short-term investments	92,106	66,129	37,852
Net (increase) decrease in notes receivable	453	474	(758)
Net cash used in investing activities	(42,582)	(40,833)	(57,901)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash dividends paid on common stock	(13,091)	(13,030)	—
Stock repurchases	—	(1,422)	(49,969)
Proceeds from exercise of stock options	6,569	979	2,727
Net cash used in financing activities	(6,522)	(13,473)	(47,242)
Effect of foreign currency exchange rate changes	12	218	663

(Continued)

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NAUTILUS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(In Thousands)

	2004	2003	2002
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (2,086)	$ (10,367)	$ (3,920)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	21,352	31,719	35,639
CASH AND CASH EQUIVALENTS, END OF YEAR	$19,266	$ 21,352	$31,719
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -			
Cash paid for income taxes	$10,831	$ 16,346	$46,627
SUPPLEMENTAL DISCLOSURE OF OTHER NONCASH INVESTING ACTIVITY -			
Other receivable issued as part of the sale of land	$ 2,331	$ —	$ —
Other long term liability issued in conjunction with the acquisition of certain intangible assets	$ 200	$ —	$ —

(Concluded)

See notes to consolidated financial statements.

NAUTILUS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE YEARS ENDED DECEMBER 31, 2004
(In Thousands, Except Share and Per Share Data)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Nautilus, Inc. and subsidiaries (the “Company”), a Washington corporation, is a leading marketer, developer, and manufacturer of branded health and fitness products sold under such well-known brands as Nautilus, Bowflex, Schwinn, and StairMaster. These brands are distributed through well established direct to consumer, commercial, and retail channels. The Company’s consumer and commercial fitness equipment products include a full line of cardiovascular and weight resistance products such as home gyms, free weight equipment, treadmills, indoor cycling equipment, steppers, ellipticals, treadclimbers and fitness accessories.

Consolidation – The consolidated financial statements of the Company include Nautilus, Inc. and its wholly owned subsidiaries. All intercompany transactions have been eliminated in the preparation of the consolidated financial statements.

Use of Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates included in the preparation of the financial statements are related to revenue recognition, stock-based compensation, warranty reserves, legal reserves, sales return reserves, the allowance for doubtful accounts, inventory valuation, intangible asset valuation, and income tax provision.

Cash and Cash Equivalents include cash on hand, cash deposited with banks and financial institutions and highly liquid debt instruments purchased with original maturity dates of three months or less at the date of acquisition. The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Short term investments – Substantially all short-term investments are comprised of investment grade variable rate debt obligations, which are asset-backed and categorized as available-for-sale. Accordingly investments in these securities are recorded at cost, which approximates fair value due to their variable interest rates, which typically reset every 35 days. Despite the long-term nature of the investments stated contractual maturities, we have the ability to quickly liquidate these securities. As a result of the resetting variable rates, we had no cumulative gross unrealized or realized holding gains or losses from these investments. All income generated from these investments was recorded as interest income. Variable rate debt obligations, historically classified as cash and cash equivalents, have been reclassified within the Consolidated Balance Sheets as short-term investments for the year ending December 31, 2003. Cash and cash equivalents for 2003 decreased by $51.3 million while short-term investments increased by the same amount.

Trade Receivables – The Company maintains an allowance for doubtful accounts receivable based upon our historical experience and the expected collectibility of all outstanding accounts receivable. Allowance for doubtful accounts receivable activity for the years ended December 31, 2004, 2003 and 2002 is as follows:

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions*	Balance at End of Period
Allowance for doubtful accounts:				
2004	$ 2,686	$ 985	$ 419	$ 3,252
2003	3,147	388	849	2,686
2002	2,064	1,369	286	3,147

* Deductions represent amounts written off against the allowance, net of recoveries.

Inventories are stated at the lower of average cost (first-in, first-out) or market or at the lower of standard cost (first-in, first-out) or market. The Company evaluates the need for inventory valuation adjustments associated with obsolete, slow-moving and nonsalable inventory by reviewing current transactions and forecasted product demand on a quarterly basis.

Property, Plant and Equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Management reviews the investment in long-lived assets for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. There have been no such events or circumstances in each of the three years in the period ended December 31, 2004. If there were an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the assets and their eventual disposition. If these cash flows were less than the carrying amount of the assets, an impairment loss would be recognized to write down the assets to their estimated fair value.

Goodwill and Other Assets consist of license agreements, patents, trademarks and goodwill. Long lived and intangible assets that are determined to have finite lives are amortized using the straight-line method over their estimated useful lives of two to twenty years and are measured for impairment only when events or circumstances indicate the carrying value may be impaired. In these cases, the Company estimates the future undiscounted cash flows to be derived from the asset to determine whether a potential impairment exists. If the carrying value exceeds the estimate of future undiscounted cash flows, the Company then calculates the impairment as the excess of the carrying value of the asset over the estimate of its fair value.

Certain intangible assets with indefinite useful lives are evaluated for impairment annually. The Company reviews and tests its goodwill and intangible assets for impairment in the fourth quarter of each year and when events or changes in circumstances indicate that the carrying amount of such assets may be impaired. Determination of fair value is based on estimated discounted future cash flows resulting from the use of the asset. The Company compares the estimated fair value of goodwill and intangibles assets to the carrying value. If the carrying value exceeds the estimate of fair value, the Company calculates impairment as the excess of the carrying value over the estimated fair value. The estimates of fair value in goodwill and indefinite-lived intangible assets are based on a number of factors, including assumptions and estimates for projected sales, income, cash flows, and other operating performance measures. These assumptions and estimates may change in the future due to changes in economic conditions, in the Company's ability to meet sales and profitability objectives, or changes in the Company's business operations or strategic direction.

Any impairment charge would be classified as a component of general and administrative expenses. In the fourth quarter of 2004, the Company determined that goodwill and long lived assets are not impaired.

Guarantees – From time to time, the Company arranges for commercial leases or other financing sources to enable certain of its commercial customers to purchase the Company's equipment. While most of these financings are without recourse, in certain cases the Company provides a guarantee or other recourse provisions to the independent finance company of all or a portion of the lease payments in order to facilitate the sale of the commercial equipment. In such situations, the Company ensures that the transaction between the independent leasing company and the commercial customer represents a sales-type lease. The Company monitors the payment status of the lessee under these arrangements and provides a reserve under Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*, in situations when collection of the lease payments is not probable. At December 31, 2004 and 2003, the maximum contingent liability under all recourse and guarantee provisions, was approximately $4,433 and $3,036, respectively. As of December 31, 2004, lease terms on outstanding commercial customer financing arrangements were between 3 and 7 years. A reserve for estimated losses under recourse provisions of $79 and $32 has been recorded based on historical loss experience and is included in accrued expenses at December 31, 2004 and 2003, respectively. In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 45, *Guarantor's Accounting and Disclosure*

Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, the Company has also recorded a liability and corresponding reduction of revenue of $146 and $81 for the years ended December 31, 2004 and 2003, respectively, for the estimated fair value of the Company's guarantees issued. The fair value of the guarantees was determined based on the estimated risk premium a bank or similar institution would require in order to extend financing to a customer in the absence of a third-party guarantee. This liability is being reduced over the life of each respective guarantee. In most cases if the Company is required to fulfill its obligations under the guarantee, it has the right to repossess the equipment from the commercial customer. It is not practical to estimate the approximate amount of proceeds that would be generated from the sale of these assets in such situations.

Revenue Recognition – Revenue is recorded when products are shipped and the Company has no significant remaining obligations, persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable, and collectibility is reasonably assured or probable. For all of the Company's products, except Nautilus commercial equipment, revenue from product sales is recognized when title and risk of loss have passed according to the Company's terms of sale, title and risk of loss pass to the customer upon delivery to the carrier. Revenue is recognized upon final installation for the Nautilus commercial equipment if the Company is responsible for installation.

Emerging Issues Task Force ("EITF") issue No. 00-10, *Accounting for Shipping and Handling Fees and Costs*, requires all amounts billed to a customer in a sale transaction related to shipping and handling, if any, be classified as revenue. Costs incurred for shipping and handling should be classified as cost of sales. Amounts billed to customers classified as revenue were $35,338, $28,868, and $42,314 for the years ended December 31, 2004, 2003 and 2002, respectively. Costs incurred for shipping and handling classified as cost of sales were $23,760, $21,038, and $24,477 for the years ended December 31, 2004, 2003 and 2002, respectively.

Sales Returns – The sales return reserve is maintained based on our historical experience of direct-marketed product return rates during the period in which a customer can return a product for refund of the full purchase price, less shipping and handling in certain instances. The return periods for direct marketed product lines range from 30 days to six weeks depending on the specific product. We track product returns in order to identify any potential negative customer satisfaction trends. In our commercial/retail segment the Company also provides for estimated sales returns from customers as reductions to revenues and accounts receivable. The estimates are based on historical rates of product returns. Sales return reserve activity for the years ended December 31, 2004, 2003 and 2002 is as follows:

	Balance at Beginning of Period	Charged to Sales and Costs and Expenses	Deductions*	Balance at End of Period
Sales return reserves:				
2004	$ 1,702	$ 15,702	$ 12,449	$ 4,955
2003	2,550	8,346	9,194	1,702
2002	2,100	14,494	14,044	2,550

* Deductions represent product returns.

The direct segment sales return reserve of $1,785 and $1,702 as of December 31, 2004 and 2003, respectively, are presented on the Consolidated Balance Sheets as part of accrued liabilities. The commercial/retail sales return reserve of $3,170 as of December 31, 2004 is presented on the Consolidated Balance Sheets as a reduction to trade receivables.

Warranty Costs – The Company's warranty policy provides for coverage of defects in material and workmanship. Warranty periods on the Company's products range from two years to limited lifetime on the Bowflex lines of fitness products, and one to five years on Bowflex TreadClimbers, depending on the model and part, on a prorated basis. The commercial and retail line of fitness products include a lifetime warranty on the frame and structural parts, a four month to three year warranty on parts, labor, electronics, upholstery, grips and cables, and typically a five year warranty on motors. Warranty costs are estimated based on the Company's experience and are charged to cost of sales as sales are recognized or as such estimates change. Warranty reserve activity for the years ended December 31, 2004, 2003 and 2002 is as follows:

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions*	Balance at End of Period
Warranty reserves:				
2004	$ 7,348	$ 7,362	$ 7,173	$ 7,537
2003	5,358	5,845	3,855	7,348
2002	2,413	6,155	3,210	5,358

* Deductions represent warranty claims paid out in the form of service costs and/or product replacements.

Research and Development – Internal research and development costs relating to the development of new products, including significant improvements and refinements to existing products, are expensed as incurred and included separately in operating expenses. Third party research and development costs are expensed when the contracted work has been performed.

Advertising – The Company expenses advertising costs as incurred, except for commercial advertising production costs which are expensed at the time the first commercial is shown on television. Advertising expense was $82,766, $89,485, and $88,305 for 2004, 2003 and 2002, respectively.

Income Taxes – The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. A valuation allowance is recorded to reduce deferred tax assets to an amount for which realization is more likely than not. Any income tax contingencies are accounted for in accordance with SFAS No. 5 *"Accounting for Contingencies."* Further, the Company realized income tax benefits as a result of the exercise of non-qualified stock options and the exercise and subsequent sale of certain incentive stock options (disqualifying dispositions). For financial statement purposes, any reduction in income tax obligations as a result of these tax benefits is credited to common stock.

Foreign Currency Translations – Excluding Switzerland, the accounts of our foreign operations are measured using the local currency as the functional currency. For our Swiss operations, the local currency, the Swiss Franc, is remeasured to the functional currency, the U.S. dollar, with the related gains or losses recognized in current period net income. These accounts are then translated into U.S. dollars using exchange rates in effect at year-end for assets and liabilities and the weighted average exchange rate during the period for the results of operations. Translation gains and losses are accumulated as a separate component of stockholders' equity and comprehensive income.

Foreign Currency Transactions – Foreign currency transaction gains and losses are a result of the effect of exchange rate changes on transactions denominated in currencies other than the functional currency, including U.S. dollars. Gains and losses on those foreign currency transactions are included in determining net income for the period in which exchange rates change. Foreign currency transaction gains and (losses) were ($175), ($31), and $210 for the years ended December 31, 2004, 2003 and 2002, respectively.

Stock-Based Compensation – The Company measures compensation expense for its stock-based employee compensation plans using the method prescribed by Accounting Principles Board ("APB") Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and furnishes the pro forma disclosures required under SFAS No. 148, *"Accounting for Stock-Based Compensation – Transition and Disclosure."*

With one exception, the Company has not recognized compensation expense relating to employee stock options because it has only granted options with an exercise price equal to the fair value of the stock on the effective date of grant. In July 2003, certain stock options were granted at an exercise price below current market price on the day of the grant, for which the Company recognized compensation expense of $340 and $156 in 2004 and 2003, respectively. The unearned portion of this stock option grant resides in Stockholders' Equity in the Consolidated Balance Sheets and will be recognized evenly over the five-year vesting period as compensation expense. The estimated compensation expense for the next three years is $340 per year and $184 in year four.

The following tables illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *"Accounting for Stock-Based Compensation,"* using the Black-Scholes option pricing model:

	2004	2003	2002
Net income, as reported	$29,985	$34,402	$97,887
Add: Stock-based employee compensation expense included in reported net income, net of tax	223	100	—
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	(2,967)	(3,215)	(3,141)
Net income, pro forma	$27,241	$31,287	$94,746
Basic earnings per share, as reported	$ 0.92	$ 1.06	$ 2.84
Basic earnings per share, pro forma	$ 0.83	$ 0.96	$ 2.75
Diluted earnings per share, as reported	$ 0.90	$ 1.04	$ 2.79
Diluted earnings per share, pro forma	$ 0.82	$ 0.95	$ 2.70

The pro forma amounts may not be indicative of the effects on reported net income for future years due to the effect of options vesting over a period of years, forfeitures, and the granting of stock compensation awards in future years.

Comprehensive Income is defined as net income as adjusted for changes to equity resulting from events other than net income or transactions related to an entity's capital structure. Comprehensive income for the years ended December 31, 2004, 2003 and 2002 equals net income plus or minus the effect of foreign currency translation adjustments. The foreign currency translation adjustments are due to the translation of the financial statements of our foreign subsidiaries. Accumulated other comprehensive income consists solely of cumulative foreign currency translation adjustments as of December 31, 2004, 2003 and 2002.

Fair Value of Financial Instruments – The carrying amounts of the Company's cash and cash equivalents, short-term investments, trade receivables, notes receivable, trade payables, royalty payable to stockholders, and accrued liabilities approximate their estimated fair values due to the short-term maturities of those financial instruments.

Recent Accounting Pronouncements – In November 2004, the FASB issued SFAS No. 151, *"Inventory Costs, an amendment of ARB No. 43, Chapter 4."* SFAS No. 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS No. 151 are effective for the fiscal year beginning after June 15, 2005. The Company is currently evaluating the provisions of SFAS No. 151 and does not expect that the adoption will have a material impact on the Company's Consolidated Financial Statements.

In December 2004, the FASB issued SFAS No. 123R *"Share-Based Payment,"* which requires companies to recognize in their statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees. SFAS No. 123R is effective for interim or annual periods beginning after June 15, 2005. Accordingly, we will adopt SFAS No. 123R in our third quarter of 2005. The Company is evaluating the impact that SFAS No. 123R will have on the Company's Consolidated Financial Statements.

In December 2004, the FASB issued SFAS No.153, *"Exchanges of Nonmonetary Assets—an Amendment of APB No. 29."* The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have "commercial substance." This standard is effective for nonmonetary asset exchanges occurring after July 1, 2005. The adoption of this standard is not expected to impact the Company's Consolidated Financial Statements.

The American Jobs Creation Act of 2004 (the "AJCA") was enacted on October 22, 2004. The AJCA repeals an export incentive, creates a new deduction for qualified domestic manufacturing activities and includes a special one-time deduction of 85% of certain foreign earnings repatriated to the U.S.

The FASB issued FSP FAS 109-1, *"Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004"* ("FSP FAS 109-1") on December 21, 2004. In accordance with FSP FAS 109-1, the Company will treat the deduction for qualified domestic manufacturing activities as a reduction of the income tax provision in future years as realized. The deduction for qualified domestic manufacturing activities did not impact the Company's Consolidated Financial Statements in 2004, and this deduction combined with the phase-out of the export incentive is not expected to have a material impact on the Company's effective tax rate in 2005.

In December 2004, the FASB issued FSP FAS 109-2, *"Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004,"* allowing companies additional time to evaluate the effect of the AJCA on plans for reinvestment or repatriation of foreign earnings. The adoption of this standard is not expected to have a material impact on the Company's effective tax rate in 2005.

Reclassifications – Certain amounts from 2003 and 2002 have been reclassified to conform to the 2004 presentation with no effect on previously reported consolidated net income or stockholders' equity.

2. STOCK-BASED COMPENSATION

The Company's stock-based compensation plan was adopted in June 1995. The Company can issue nonqualified stock options to the Company's executive officers, directors and employees and incentive stock options to the Company's executive officers and employees. The plan was amended in June 2000 so up to 7,958,118 shares of common stock may be issued pursuant to exercise of options granted under the plan. At December 31, 2004, 219,384 shares are available for future issuance under the plan. The plan is administered by the Compensation Committee of the Company's Board of Directors, which determines the terms and conditions of the various grants awarded under these plans. Stock options granted generally have an exercise price equal to the closing market price of the Company's stock on the day before the date of grant, generally no longer than five years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for the grants in 2004, 2003 and 2002:

	2004	2003	2002
Dividend yield	2.5%	3.5%	None
Risk-free interest rate	4.3%	3.9%	4.1%
Expected volatility	48.0%	59.0%	67.0%
Expected option lives	5.5 years	10 years	5 years
Weighted-average fair value of options granted per share	$ 7.41	$ 4.75	$ 20.52
Weighted-average fair value of options granted below market price per share	$ —	$ 4.83	$ —

A summary of the Company's stock option plans as of December 31, 2004, 2003 and 2002, and changes during the years ended on those dates is presented below.

	2004		2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	2,665,503	$ 13.92	1,599,987	$ 17.26	1,726,381	$ 12.79
Granted	1,265,650	18.84	1,430,000	9.36	275,075	33.25
Forfeited or canceled	(640,280)	18.23	(132,633)	21.79	(39,242)	22.70
Exercised	(542,310)	12.11	(231,851)	4.22	(362,227)	7.53
Outstanding at end of year	2,748,563	$ 15.54	2,665,503	$ 13.92	1,599,987	$ 17.26
Options exercisable at end of year	677,942		792,796		650,753	

The following table summarizes information about stock options outstanding as of December 31, 2004:

		Options Outstanding		Options Exercisable	
Range of Exercise Prices	Number Outstanding	Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares Exercisable	Weighted-Average Exercise Price
$ 6.98 - $ 8.39	863,875	8.4	$ 8.37	183,875	$ 8.28
$10.39 - $12.80	250,375	7.9	10.89	78,010	11.32
$13.37 - $15.71	725,818	7.4	14.76	145,443	13.63
$16.06 - $23.15	737,895	8.0	22.49	148,703	21.50
$24.28 - $30.42	46,500	1.9	25.58	40,750	25.56
$32.80 - $37.70	124,100	2.4	34.36	81,161	34.37
$ 6.98 - $37.70	2,748,563	7.6	$ 15.54	677,942	$ 16.84

3. OPERATING SEGMENTS

Segment information is prepared on the same basis that the Company's management reviews financial information for decision making purposes. The Company's Chief Executive Officer and Chief Financial Officer have joint responsibility as the Chief Operating Decision Maker as defined by SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information."* The Company's operating segments include its direct, commercial/retail, and corporate segments. The direct segment includes all brands and related operations involved in marketing to consumers through a variety of direct marketing channels. The Bowflex lines of strength and cardiovascular fitness equipment, and the Champion Nutrition line of nutritional supplements are the principal brands in the Company's direct segment.

The commercial/retail segment includes all brands and related operations that do not involve direct marketing to consumers. Products in this segment include Nautilus, Schwinn, StairMaster, Trimline and Bowflex commercial and retail fitness equipment and accessories.

The corporate segment consists mainly of director costs, general legal and accounting fees, salaries of corporate personnel, as well as other costs not specifically attributable to the other two business segments. In addition, treasury is a corporate function, so interest income from investments is included in the corporate segment. Accounting policies used by the segments are the same as those disclosed in Note 1.

The geographic distribution of the Company's international net sales is mostly concentrated in the United Kingdom, Germany, and Canada. Sales outside the U.S. represented approximately 13%, 13%, and 10% of consolidated net sales for the three years ended December 31, 2004, 2003 and 2002, respectively.

The following table presents information about the Company's three operating segments:

	Direct	Commercial/ Retail	Corporate	Total
Year ended December 31, 2004:				
Net sales	$262,077	$ 261,760	$ —	$523,837
Interest income	—	88	1,269	1,357
Depreciation and amortization expense	7,472	3,921	579	11,972
Income tax expense (benefit)	10,101	8,913	(3,352)	15,662
Segment net income (loss)	19,338	17,063	(6,416)	29,985
Segment assets	53,711	176,152	129,778	359,641
Additions to property, plant and equipment	5,333	3,710	—	9,043
Year ended December 31, 2003:				
Net sales	$246,902	$ 251,934	$ —	$498,836
Interest income	1	80	758	839
Depreciation and amortization expense	8,061	3,648	565	12,274
Income tax expense (benefit)	10,828	12,339	(3,816)	19,351
Segment net income (loss)	19,251	21,934	(6,783)	34,402
Segment assets	37,955	173,990	99,990	311,935
Additions to property, plant and equipment	3,334	3,683	—	7,017
Year ended December 31, 2002:				
Net sales	$392,612	$ 192,038	$ —	$584,650
Interest income	—	83	1,478	1,561
Depreciation and amortization expense	2,824	2,950	542	6,316
Income tax expense (benefit)	53,855	2,820	(1,615)	55,060
Segment net income (loss)	95,745	5,012	(2,870)	97,887
Segment assets	52,251	149,559	74,843	276,653
Additions to property, plant and equipment	18,615	11,746	1,181	31,542

4. ACQUISITIONS

Effective February 8, 2002, the Company acquired the trade receivables, inventories, prepaid expenses and other current assets, property, plant and equipment, certain intangible assets and the foreign subsidiaries of StairMaster for a cash purchase price of approximately $25,785, including acquisition costs. StairMaster was acquired through a bankruptcy auction in the United States Bankruptcy Court for the Western District of Washington that was completed on January 17, 2002.

The primary reason for the acquisition was to acquire necessary assets including property, plant and equipment used to manufacture, assemble, distribute, and sell fitness equipment, including steppers, stepmills, treadmills and exercise bicycles in order to diversify our product offerings.

The purchase price for StairMaster 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 with cash-on-hand.

The Company has determined that the StairMaster trademark has an indefinite useful life and thus will not be amortized. The Company will evaluate the trademark each reporting period to determine whether events or circumstances warrant a revision to the indefinite useful life assumption or whether the asset should be tested for impairment.

On October 2, 2002, Quinton Cardiology Systems, Inc. ("Quinton") purchased certain fixed assets and inventories that the Company originally acquired in the StairMaster acquisition for $1,725 consisting of $1,000 in cash and a $725 promissory note payable quarterly over a two-year period at prime plus 2%. These assets consisted of medical treadmill manufacturing fixed assets and inventories, which StairMaster used for outsourced production of Quinton branded medical treadmills.

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

Cash and cash equivalents	$ 793
Trade receivables	8,025
Inventories	6,158
Prepaid expenses and other current assets	2,381
Property, plant and equipment	4,807
Trademark	6,115
Liabilities assumed	(3,355)
Total acquisition cost	$24,924

The unaudited pro forma financial information below for the year ended December 31, 2002 was prepared as if the transaction involving the acquisition of StairMaster had occurred at January 1, 2002:

	2002
Net sales	$ 590,929
Net income	98,111
Basic earnings per share	2.84
Diluted earnings per share	2.79

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

5. INVENTORIES

Inventories at December 31 consisted of the following:

	2004	2003
Finished goods	$31,170	$30,901
Work-in-process	1,104	2,294
Parts and components	16,830	19,934
Inventories	$49,104	$53,129

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6. PROPERTY, PLANT AND EQUIPMENT, net

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

	Estimated Useful Life (in years)	2004	2003
Land	N/A	$ 2,289	$ 3,468
Buildings and improvements	7 to 31.5	22,431	21,964
Computer equipment	2 to 5	32,587	28,159
Production equipment	3 to 5	18,898	16,838
Furniture and fixtures	5	1,713	1,608
Automobiles	7	430	590
Total property, plant and equipment		78,348	72,627
Accumulated depreciation		(31,998)	(22,025)
Property, plant and equipment, net		$ 46,350	$ 50,602

7. OTHER ASSETS, net

Details of other assets are summarized as follows at December 31:

	Estimated Useful Life (in years)	2004	2003
Indefinite life trademarks	N/A	$10,465	$10,465
Definite life trademarks	20	6,800	6,800
Other assets	2 to 17	2,356	1,558
Total other assets		19,621	18,823
Accumulated amortization – trademarks		(1,777)	(1,417)
Accumulated amortization – patents		(181)	(140)
Other assets, net		$17,663	$17,266

Amortization of intangible assets for the years ended December 31, 2004 and 2003 was $401 and $362, respectively. The estimated amortization expense for the next five years is approximately $460 each year. Such estimated amortization will change if businesses or portions thereof are either acquired or disposed, or if changes in events or circumstances warrant the revision of estimated useful lives.

8. ACCRUED LIABILITIES

Accrued liabilities consisted of the following at December 31:

	2004	2003
Accrued payroll	$ 8,581	$ 9,438
Accrued warranty expense	7,537	7,348
Product safety reinforcement (recall) reserve	—	3,000
Sales return reserve	1,785	1,702
Accrued other	6,782	7,160
Accrued liabilities	$24,685	$28,648

9. COMMITMENTS AND CONTINGENCIES

Product Warranty Matters – Our product warranty accrual reflects management's best estimate of probable liability under its product warranties. We determine the warranty accrual based on known product failures (if any), historical experience, and other currently available evidence.

Product Safety Matters – In February 2004, the Company was notified that the Consumer Product Safety Commission ("CPSC") was investigating whether the Company violated the reporting obligations of the Consumer Product Safety Act (the "Act") in connection with bench and lat tower incidents reported by users of the Bowflex Power Pro with lat tower attachment. Under the Act, the CPSC may assess penalties if it is determined that a product defect was not reported in accordance with the Act. The Company is fully cooperating with this investigation and believes the outcome will not have a material impact on its financial statements.

Lines of Credit – The Company has a line of credit for $10.0 million with a financial institution. The line of credit is secured by certain assets and contains several financial covenants. Interest is payable on outstanding borrowings under the line at the bank's prime rate (5.25% at December 31, 2004). The Company believes it is in compliance with the financial covenants applicable to the line of credit. There were no outstanding borrowings on the line of credit at December 31, 2004 or 2003. At December 31, 2004 and 2003, the Company had $8.1 million and $5.6 million, respectively in stand by letters of credit with Asian vendors reducing the available balance of the $10.0 million line of credit.

Operating Leases – The Company has operating leases for various domestic and international properties with functional uses predominantly ranging from, but not limited to, warehousing and distribution, product development, administration, and product sales. The Company also has operating leases for certain equipment mainly consisting of product delivery trucks used in our commercial fitness equipment business and product service vans for warranty related matters. Rent expense under all leases was $2,921, $3,215, and $4,216 in 2004, 2003 and 2002, respectively.

Obligations – Operating leases under which the Company is presently obligated expire over various terms through June 2015. Future minimum lease payments under the noncancellable operating leases are as follows:

2005	$ 3,376
2006	3,918
2007	3,569
2008	3,333
2009	2,494
Thereafter	12,014
Minimum lease payments	$ 28,704

10. INCOME TAXES

The income before income taxes was as follows:

	2004	2003	2002
United States	$ 43,168	$ 50,990	$ 152,851
Foreign	2,479	2,763	96
Total	$ 45,647	$ 53,753	$ 152,947

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The provision for income taxes consists of the following for the years ended December 31,:

	2004	2003	2002
Current:			
Federal	$13,495	$18,996	$48,483
State	861	731	1,597
Foreign	446	287	—
Total current	14,802	20,014	50,080
Deferred:			
Federal	884	(582)	4,821
State	48	(36)	159
Foreign	(72)	(45)	—
Total deferred	860	(663)	4,980
Total provision	$15,662	$19,351	$55,060

The components of the net deferred tax liability at December 31, 2004 and 2003 are as follows:

	2004	2003
Assets:		
Accrued liabilities	$ 5,363	$ 5,620
Allowance for doubtful accounts	637	188
Inventory valuation	614	573
Uniform capitalization	349	391
Other	117	83
	7,080	6,855
Liabilities:		
Prepaid advertising	(617)	(935)
Other prepaids	(1,175)	(708)
Depreciation and amortization	(11,080)	(10,206)
Undistributed earnings of foreign subsidiaries	(628)	(566)
	(13,500)	(12,415)
Net deferred tax liability	$ (6,420)	$ (5,560)

Deferred taxes are presented in the consolidated balance sheet at December 31, 2004 and 2003 as follows:

	2004	2003
Current deferred tax asset	$ 4,661	$ 4,646
Noncurrent deferred tax liabilities	(11,081)	(10,206)
Net deferred tax liability	$ (6,420)	$ (5,560)

A reconciliation of the U.S. statutory federal income tax rate with the Company's effective income tax rate is as follows:

	2004	2003	2002
U.S. statutory income tax rate	35.0%	35.0%	35.0%
State tax, net of federal benefit	1.2	1.8	1.1
Tax benefit related to U.S. export sales	(0.3)	(0.5)	(0.2)
Nondeductible operational expenses	0.3	0.2	0.1
Tax exempt interest	(0.8)	(0.3)	—
Research and development credit	(0.4)	(0.3)	—
Reduction in tax contingency reserve	(0.9)	—	—
Other	0.2	0.1	—
Total	34.3%	36.0%	36.0%

In 2004 the Company derived tax benefits from an exclusion provided under U.S. income tax laws with respect to certain extraterritorial income attributable to foreign trading gross receipts ("FTGRs"). This exclusion was repealed as part of the AJCA, which was enacted on October 22, 2004. The AJCA provides for a phase-out such that the exclusion for the Company's otherwise qualifying FTGRs generated in fiscal 2005 and 2006 will be limited to 80% and 60%, respectively. No exclusion will be available in fiscal years 2007 and thereafter.

The AJCA also provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. Under the guidance in FSP FAS 109-1, the deduction will be treated as a "special deduction" as described in SFAS No. 109, *"Acounting for Income Taxes."* As such, the special deduction has no effect on the rate used to value deferred tax assets and liabilities existing at the enactment date. The impact of this deduction will be reported in the period for which the deduction is claimed on the Company's tax return.

The Company is evaluating the effects of indefinitely reinvesting undistributed earnings of our foreign subsidiaries. In prior years, the Company provided U.S. deferred income taxes on all undistributed earnings from non-US subsidiaries. We expect to complete our evaluation within the first two quarters of 2005.

11. EARNINGS PER SHARE

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options calculated using the treasury stock method. Net income for the calculation of both basic and diluted earnings per share is the same as reported net income for all periods.

The calculation of weighted-average outstanding shares for the three years ended December 31, 2004 is as follows:

	2004	2003	2002
Basic shares outstanding	32,756,766	32,579,533	34,499,482
Dilutive effect of stock options	637,394	439,161	643,312
Diluted shares outstanding	33,394,160	33,018,694	35,142,794
Antidilutive stock options*	860,620	1,164,194	263,575

* Stock options not included in the calculation of diluted earnings per share for each respective year because they would be antidilutive.

12. STOCK REPURCHASE PROGRAM

In January 2003, the Board of Directors authorized the expenditure of up to $50,000 to purchase shares of the Company's common stock in open-market transactions. During 2003, the Company repurchased a total of 100,300 shares of common stock in open market transactions for an aggregate purchase price of $1,422. The authorization expired on June 30, 2003 and was not renewed.

During the year ended December 31, 2002, the Company repurchased a total of 2,843,120 shares of common stock in open-market transactions for an aggregate purchase price of $49,969.

13. RELATED-PARTY TRANSACTIONS

The Company incurred royalty expense under an agreement with a stockholder of the Company of $1,843 in 2004, $6,556 in 2003, and $9,089 in 2002, of which $18 and $2,133 was payable at December 31, 2004 and 2003, respectively. In addition to the royalty agreement, the stockholder had separately negotiated an agreement dated June 18, 1992, when the Company was privately held, between the stockholder, the Company's former Chairman and Chief Executive Officer (the "former Chairman"), and a former director of the Company. That separate agreement stipulated that annual royalties above $90 would be paid 60% to the stockholder, 20% to the former Chairman, and 20% to the former director. Both of these agreements expired in April 2004.

14. LITIGATION

The Company is subject to litigation, claims and assessments in the ordinary course of business, including disputes that may arise from intellectual property related matters. Many of our legal matters are covered in whole or in part by insurance. Management believes that any liability resulting from such matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

In December 2002, the Company filed suit against ICON Health and Fitness, Inc. ("ICON") in the Federal District Court, Western District of Washington (the "District Court") alleging infringement by ICON of the Company's Bowflex patents and trademarks. The Company sought injunctive relief, unquantified treble damages and its fees and costs. In October 2003, the District Court dismissed our patent infringement claims. The Company appealed the District Court's decision to the United States Court of Appeals for the Federal Circuit (the "Appeals Court") and in November 2003, the Appeals Court overruled the District Court and reinstated the patent infringement claims. The District Court has scheduled a trial on our patent infringement claims against ICON in April 2005.

In July 2003, the District Court ruled in favor of the Company on a motion for preliminary injunction on the issue of trademark infringement and entered an order barring ICON from using the trademark "CrossBow" on any exercise equipment. In its ruling, the District Court concluded that the Company showed "a probability of success on the merits and irreparable injury" on its trademark infringement claim. In August 2003, the Appeals Court granted ICON a temporary stay regarding the motion for a preliminary injunction, enjoining ICON from using the trademark "CrossBow." This stay allowed ICON to continue using the trademark "CrossBow" until a decision was issued by the Appeals Court. In June 2004, the Appeals Court issued its decision upholding the issuance of an injunction, and preventing ICON from selling exercise equipment using the trademark "CrossBow" pending trial on the trademark issue. No trial date has been set on the trademark claim.

ICON has been using the term "CrossBar" on certain exercise equipment in response to the litigation regarding its use of "CrossBow." In July 2004, the Company filed an additional suit against ICON in the District Court alleging that ICON has further infringed on the Bowflex trademark by the use of the "CrossBar" trademark. The Company seeks injunctive relief to prevent the sale of any fitness equipment that bears the trademark "CrossBar" as well as monetary damages.

15. EMPLOYEE BENEFIT PLAN

The Company adopted a 401(k) profit sharing plan (the “Plan”) in 1999 covering substantially all employees over the age of 18. The Plan was amended in 2000 to allow for immediate eligibility in the Plan. Each participant in the Plan may contribute up to 50% of eligible compensation during any calendar year, subject to certain limitations. The Plan provides for Company matching contributions of up to 50% of the first 6% of eligible contributions made by all participants. All participants must have completed one year of service before becoming eligible for Company matching contributions. Employees are 25% vested in the matching contributions per year for the first four years of service. Expense for the plan was $640, $613, and $356, for the years ended December 31, 2004, 2003 and 2002, respectively.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our President and Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on that evaluation, our President and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Nautilus, Inc., together with its consolidated subsidiaries (the “Company”), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting is a process designed under the supervision of the Company’s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

As of the end of the Company’s 2004 fiscal year, management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting based on the framework established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this assessment, management has determined that the Company’s internal control over financial reporting as of December 31, 2004 is effective.

Management’s assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2004 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing below, which expresses unqualified opinions on management’s assessment and on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2004.

Inherent Limitations on Effectiveness of Controls

The Company’s management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Nautilus, Inc.
Vancouver, Washington

We have audited management's assessment, included in the accompanying "Management Report on Internal Control Over Financial Reporting," that Nautilus, Inc. (formerly The Nautilus Group, Inc.) and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2004, and the related consolidated statements of income, stockholders’ equity and comprehensive income, and cash flows for the year then ended of the Company and our report dated March 14, 2005 expressed an unqualified opinion on those financial statements.

DELOITTE & TOUCHE LLP

Portland, Oregon
March 14, 2005

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item is included under the captions *Election of Directors, Executive Officers,* and *Section 16(a) Beneficial Ownership Reporting Compliance,* respectively, in the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

The Company has adopted the Nautilus, Inc. Code of Business Conduct and Ethics, which is a code of conduct and ethics that applies to all employees, directors and officers, including the Company's principal executive officer, principal financial officer and principal accounting officer. The Code of Business Conduct and Ethics is available on the Company's website, www.nautilus.com.

Item 11. Executive Compensation

The information required by this item is included under the caption *Executive Compensation* in the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is included under the caption *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* in the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by this item is included under the caption *Certain Relationships and Related Transactions* in the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is included under the caption *Independent Certified Public Accountants* in the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

See the Consolidated Financial Statements in Item 8.

(a)(2) Financial Statement Schedule

There are no financial statement schedules filed as part of this annual report, since the required information is included in the consolidated financial statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

(a)(3) Exhibit Index

See Exhibit Index beginning on page 61 for a description of the documents that are filed as Exhibits to this Annual Report on Form 10-K or incorporated herein by reference.

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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.

Date: March 14, 2005

NAUTILUS, INC.

By: /s/ GREGGORY C. HAMMANN

Greggory C. Hammann,
Chief Executive Officer, President and
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 14, 2005:

Signature	Title
/s/ GREGGORY C. HAMMANN **Greggory C. Hammann**	Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer)
/s/ ROD W. RICE **Rod W. Rice**	Chief Financial Officer and Secretary (Principal Financial Officer)
/s/ WILLIAM D. MEADOWCROFT **William D. Meadowcroft**	Vice President, Principal Accounting Officer & Treasurer
* **Peter A. Allen**	Director
* **Robert S. Falcone**	Director
* **Frederick T. Hull**	Director
* **Donald W. Keeble**	Director
* **Paul F. Little**	Director
* **Diane L. Neal**	Director
* **James M. Weber**	Director

*By: /s/ ROD W. RICE

Rod W. Rice
Attorney-In-Fact

March 14, 2005

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Incorporation, as Amended – Incorporated by reference to Exhibits 3.1, 3.2 and 3.3 of the Company's Registration Statement on Form S-1, as filed with the Commission on March 3, 1999.
3.2	Amendment to Articles of Incorporation – Incorporated by reference to Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2000, as filed with the Commission on August 10, 2000.
3.3	Amendment to Articles of Incorporation – Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2002, as filed with the Commission on August 14, 2002.
3.4	Amendment to Articles of Incorporation – Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K, as filed with the Commission on March 14, 2005.
3.5	Amended and Restated Bylaws – Incorporated by reference to Exhibit 3.4 of the Company's Registration Statement on Form S-1/A, as filed with the Commission on April 30, 1999.
10.1*	Company Stock Option Plan, as amended – Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1, as filed with the Commission on March 3, 1999.
10.2*	Amendment to Company Stock Option Plan – Incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2000, as filed with the Commission on August 10, 2000.
10.3*	Form of Employee Incentive Stock Option Agreement under the Company Stock Option Plan.
10.4*	Form of Nonstatutory Stock Option Agreement under the Company Stock Option Plan.
10.5	Third Amended and Restated Merchant Agreement dated January 17, 2005, between the Company and Household Bank (SB), N.A. – Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, as filed with the Commission on January 21, 2005.
10.6	Trademark License Agreement by and between Pacific Direct, LLC and the Company – Incorporated by reference to Exhibit 2.1 of the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2001, as filed with the Commission on November 14, 2001.
10.7	License Agreement, dated April 26, 1999, as amended, between the Company and Gary D. Piaget – Incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Commission on March 15, 2004.
10.8	Revolving Credit Agreement, with Addendum, dated June 27, 2002, by and between the Company and U.S. Bank National Association – Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2002, as filed with the Commission on August 14, 2002.
10.9	Lease agreement, dated November 23, 2004 between Columbia Tech Center LLC and The Nautilus Group, Inc. – Incorporated by reference to Exhibit 99.1 of the Company's Form 8-K, as filed with the Commission on November 23, 2004.
10.10*	Executive Employment Agreement, dated July 2, 2003, by and between the Company and Gregg Hammann – Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2003, as filed with the Commission on November 14, 2003.
10.11*	Executive Employment Agreement, dated January 29, 2004, by and between the Company and Timothy Hawkins.

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Exhibit No.	Description
10.12*	Executive Employment Agreement dated September 24, 2002, by and between the Company and Stephen Eichen.
10.13*	Executive Employment Agreement dated January 1, 1998, by and between the Company and Rod W. Rice.
10.14*	Executive Employment Agreement dated January 14, 2004 by and between the Company and Darryl Thomas.
21	Subsidiaries of Nautilus, Inc.
23	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney for Peter A. Allen.
24.2	Power of Attorney for Robert S. Falcone.
24.3	Power of Attorney for Frederick T. Hull.
24.4	Power of Attorney for Donald W. Keeble.
24.5	Power of Attorney for Paul F. Little.
24.6	Power of Attorney for Diane L. Neal.
24.7	Power of Attorney for James M. Weber.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates management contract, compensatory agreement or arrangement, in which the Company’s directors or executive officers may participate.

THE NAUTILUS GROUP, INC.

INCENTIVE STOCK OPTION AGREEMENT

The Nautilus Group, Inc. (the "Company") has granted to ______ (the "Optionee"), an option to purchase a total of ______ shares of Common Stock, at the price determined as provided herein, and in all respects subject to the terms, definitions and provisions of the 1995 Stock Option Plan (the "Plan") adopted by the Company which is incorporated herein by reference. The Terms defined in the Plan shall have the same defined meanings herein.

1. Nature of the Option. This Option is an incentive stock option and is intended to qualify for a special tax benefit to the Optionee.

2. Exercise Price. The exercise price is U.S. for each share of Common Stock, which price is not less than the fair market value per share of the Common Stock on the date of grant.

3. Exercise of Option. The Option shall be exercisable during its term in accordance with the provisions of the Plan as follows:

(i) Right to Exercise.

(a) This Option shall be exercisable, only when the Option is vested as defined in Term of Option, Section 8.

(b) This Option may not be exercised for a fraction of a share.

(c) In the event of Optionee's death or divorce, the exercisability of the Option is governed by the provisions of the Plan.

(ii) Method of Exercise. This Option shall be exercisable by written notice which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the Optionee's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary or Assistant Secretary of the Company. The written notice shall be accompanied by payment of the exercise price as provided in Section 5 below.

No shares will be issued pursuant to the exercise of an Option, unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed.

4. Optionee's Representations. In the event the Shares purchasable pursuant to the exercise of the Option have not been registered under the Securities Action of 1933, as amended, at the time this Option is exercised, Optionee shall, concurrently with the exercise of all or any portion of this Option, deliver to the Company the Optionee's Investment Representation Statement in such form as may be required in the opinion of the Company's legal counsel to comply with applicable state and federal securities laws.

5. Method of Payment. Payment of the exercise price shall be in cash. Any Common Stock delivered in full or partial payment for the exercise price shall be valued at the fair market value thereof the day of exercise. If the value of the Common Stock delivered in payment of the exercise price exceeds the exercise price, no fractional shares will be issued and Optionee will receive cash in the amount of such excess.

6. Restrictions on Exercise. This Option may not be exercised if the issuance of such Shares upon such exercise of the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, or the rules, regulations or listing requirements of any stock exchange upon which the shares are listed or included.

7. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of the descent or distribution or pursuant to a qualified domestic relations order as defined by Section 414(p) of the Internal Revenue Code or Title I of the Employee Retirement Income Security Act or the rules thereunder, and may be exercised during the lifetime of Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. The term of this Option shall be as follows:

(i) Vesting Period of Option. This Option shall become exercisable as to ______ of the total shares covered hereby at the end of the 12-month period of Optionee’s continuous employment with the Company following the date of grant, and shall thereafter become exercisable as to an additional ______of the total Shares covered hereby at the end of each subsequent 12-month period of Optionee’s continuous employment with the Company.

(ii) Exercisable Period. This Option may not be exercised more than ten (10) years from the date of grant of this Option, and may be exercised during such term only in accordance with the Plan and the terms of this Option. This Option shall not be exercisable following the effective date of the termination of Optionee’s employment with the Company or its subsidiaries. In addition, if Optionee’s employment is terminated for cause or if Optionee voluntarily terminates employment without giving the Company at least thirty (30) days’ advance written notice, this Option shall be immediately canceled and non-exercisable and any exercise of this Option within the six (6) month period preceding such date of cancellation shall be rescinded and/or Optionee shall immediately pay to the Company the actual proceeds from the sale of shares acquired from exercise of this Option within such six (6) month period, less the Option exercise price. If the Shares were disposed of other than by sale in such a transaction which cannot be rescinded, Optionee shall pay the Company the difference between the Option exercise price and the fair market value as of the date of disposition.

9. Taxation Upon Exercise of Option. Optionee understands that pursuant to certain provisions of the Internal Revenue Code of 1986, as amended, upon exercise of this Option, Optionee may recognize income for tax purposes in an amount equal to the excess of the then fair market value of the Shares of the exercise price. The Company will be required to withhold tax from Optionee’s current compensation with respect to such income; to the extent that Optionee’s current compensation is insufficient to satisfy the withholding tax liability, the Company may require the Optionee to make a cash payment to cover such liability as a condition of exercise of this Option.

DATE OF GRANT: __________

THE NAUTILUS GROUP, INC.

By: ______________________________

Signature

____

Print Name

Its: ______________________________

Dated: ____________________

____

(Optionee)

____

Print Name

THE NAUTILUS GROUP, INC.

NONSTATUTORY STOCK OPTION AGREEMENT

The Nautilus Group, Inc. (the "Company") has granted to ______ (the "Optionee"), an option to purchase a total of ______ shares of Common Stock, at the price determined as provided herein, and in all respects subject to the terms, definitions and provisions of the 1995 Stock Option Plan (the "Plan") adopted by the Company which is incorporated herein by reference. The Terms defined in the Plan shall have the same defined meanings herein.

1. Nature of the Option. This Option is a nonstatutory stock option and is not intended to qualify for a special tax benefit to the Optionee.

2. Exercise Price. The exercise price is **$______U.S.** for each share of Common Stock, which price is not less than the fair market value per share of the Common Stock on the date of grant.

3. Exercise of Option. The Option shall be exercisable during its term in accordance with the provisions of the Plan as follows:

(i) Right to Exercise.

(a) This Option shall be exercisable, only when the Option is vested as defined in Term of Option, Section 8.

(b) This Option may not be exercised for a fraction of a share.

(c) In the event of Optionee's death or divorce, the exercisability of the Option is governed by the provisions of the Plan.

(ii) Method of Exercise. This Option shall be exercisable by written notice which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the Optionee's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary or Assistant Secretary of the Company. The written notice shall be accompanied by payment of the exercise price as provided in Section 5 below.

No shares will be issued pursuant to the exercise of an Option, unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed.

4. Optionee's Representations. In the event the Shares purchasable pursuant to the exercise of the Option have not been registered under the Securities Action of 1933, as amended, at the time this Option is exercised, Optionee shall, concurrently with the exercise of all or any portion of this Option, deliver to the Company the Optionee's Investment Representation Statement in such form as may be required in the opinion of the Company's legal counsel to comply with applicable state and federal securities laws.

5. Method of Payment. Payment of the exercise price shall be in cash. Any Common Stock delivered in full or partial payment for the exercise price shall be valued at the fair market value thereof the day of exercise. If the value of the Common Stock delivered in payment of the exercise price exceeds the exercise price, no fractional shares will be issued and Optionee will receive cash in the amount of such excess.

6. Restrictions on Exercise. This Option may not be exercised if the issuance of such Shares upon such exercise of the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, or the rules, regulations or listing requirements of any stock exchange upon which the shares are listed or included.

7. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of the descent or distribution or pursuant to a qualified domestic relations order as defined by Section 414(p) of the Internal Revenue Code or Title I of the Employee Retirement Income Security Act or the rules thereunder, and may be exercised during the lifetime of Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. The term of this Option shall be as follows:

(i) Vesting Period of Option. Each option granted to the non-employee directors shall vest in its entirety only upon the conclusion of said Board member term of office at the next Annual Shareholders meeting, provided that said Board member remains in office during such term.

(ii) Exercisable Period. This Option may not be exercised more than ten (10) years from the date of grant of this Option, and may be exercised during such term only in accordance with the Plan and the terms of this Option. This Option shall not be exercisable following the effective date of the termination of Optionee’s employment with the Company or its subsidiaries. In addition, if Optionee’s employment is terminated for cause or if Optionee voluntarily terminates employment without giving the Company at least thirty (30) days’ advance written notice, this Option shall be immediately canceled and non-exercisable and any exercise of this Option within the six (6) month period preceding such date of cancellation shall be rescinded and/or Optionee shall immediately pay to the Company the actual proceeds from the sale of shares acquired from exercise of this Option within such six (6) month period, less the Option exercise price. If the Shares were disposed of other than by sale in such a transaction which cannot be rescinded, Optionee shall pay the Company the difference between the Option exercise price and the fair market value as of the date of disposition.

9. Taxation Upon Exercise of Option. Optionee understands that pursuant to certain provisions of the Internal Revenue Code of 1986, as amended, upon exercise of this Option, Optionee may recognize income for tax purposes in an amount equal to the excess of the then fair market value of the Shares of the exercise price. The Company will be required to withhold tax from Optionee’s current compensation with respect to such income; to the extent that Optionee’s current compensation is insufficient to satisfy the withholding tax liability, the Company may require the Optionee to make a cash payment to cover such liability as a condition of exercise of this Option.

DATE OF GRANT: ___________

THE NAUTILUS GROUP, INC.

By: ____________________________________

Signature

____

Print Name

Its: ____________________________________

Optionee acknowledges receipt of a copy of the Plan, a copy of which is annexed hereto, and represents that Optionee is familiar with the terms and provisions thereof. Optionee further acknowledges that if the Plan has not been approved by the Company's shareholders on the date of grant of the Option, this Option is not exercisable until such approval has been obtained.

Dated: ______________________

____

(Optionee)

____

Print Name

EXHIBIT 10.11

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is entered into as of January 29, 2004, by and between The Nautilus Group, Inc., a Washington corporation (the "Company" or "Employer"), and Tim Hawkins ("Employee"). In consideration of the premises and the mutual covenants and agreements hereinafter set forth, the Company and Employee hereby agree as follows:

1. Employment. Employee is being hired as Chief Customer Officer. Employee shall (a) devote his professional entire time, attention, and energies to his position, (b) use his best efforts to promote the interests of Employer; (c) perform faithfully and efficiently his responsibilities and duties, and (d) refrain from any endeavor outside of his employment which interferes with his ability to perform his obligations hereunder. Employee shall report to the President and Chief Executive Officer, and/or such other persons as may be designated by Employer, and perform his job duties subject to his general supervision, orders, advice and direction. Employee shall perform the duties normally associated with the position and/or such duties as delegated and assigned by the Company. Subject to the provisions of Section 7(b) herein, the Company retains the sole discretion to change Employee's position and/or duties as it deems appropriate.

Employee additionally agrees to abide by any general employment guidelines or policies adopted by Employer such as those detailed in an employer's handbook, as such guidelines or policies may be implemented and/or amended from time to time.

2. Salary. As compensation for services to be rendered hereunder, the Company shall pay Employee an initial annual salary in the gross amount of Two hundred seventy five thousand dollars ($275,000). Said salary will be paid in accordance with the Company's existing payroll policies, and shall be subject to normal and/or authorized deductions and withholdings. Employee will be eligible to receive an annual bonus up to a minimum of forty-percent (40%) of Employee's base salary. The amount of such bonus (if any) is determined at the discretion of the Company. Employee shall also be entitled to receive a one-time bonus payment in the gross amount of $150,000, payable to Employee no later than July 15, 2004, from which normal and/or authorized deductions and withholdings may be made. Said bonus payments will vest in 1/24th increments over a 2 year period beginning in February 2004. Should employee resign from the Company between February 2004 and February 28, 2006 he will re-pay a pro rata amount of that bonus for any remaining time that he is no longer employed prior to February 28, 2006. For example, should employee resign after 11 months, he will repay the Company 13/24ths of the gross bonus amount to reflect that fact that he resigned 13 months before fulfilling the 24 month employment commitment.

3. Stock Options. Pursuant to the Company's current Stock Option Plan (the "Plan"), the Company shall recommend that Employee receive options ("Options") to purchase 50,000 shares of Employer's stock. The terms of any option grant shall be governed by the Plan and a Stock Option Agreement (the "Option Agreement"). Employee acknowledges that any stock options granted do not, and will not, constitute wages or compensation. Unless otherwise provided in the Plan or required by law, the Board of Directors of Employer shall have sole discretion regarding the grant of options, price of options, the vesting schedule and all other terms and conditions of the option grant.

4. <u>Expenses</u>. The Company will reimburse Employee for all necessary and reasonable travel, entertainment and other business expenses incurred by him in the performance of his duties hereunder, upon receipt of signed itemized lists of such expenditures with appropriate back-up documentation, and/or in accordance with such other reasonable procedures as the Company may adopt generally from time to time.

5. <u>Health and Welfare Benefits</u>. Upon satisfaction of eligibility criteria, the Employee shall be eligible to receive employee benefits, if any, generally provided to its employees by Employer, including, if provided, medical insurance, paid-time off. Such benefits may be amended or discontinued by Employer at any time.

6. <u>Termination</u>. The parties acknowledge that Employee's employment with the Company is "at-will" and may be terminated by either party with or without cause. No one other than the President and Chief Executive Officer of the Company or the Board of Directors has the power to change the at-will character of the employment relationship. As discussed below, however, the various possible ways in which Employee's employment with the Company may be terminated will determine the payments that may be due to Employee under this Agreement. As used in this Agreement, the following terms have the following meanings:

(a) <u>Cause</u>. As used in this Agreement, Cause means (i) Employee's indictment or conviction in a court of law for any crime or offense that in Employer's reasonable judgment makes Employee unfit for continued employment, prevents Employee from performing Employee's duties or other obligations or adversely affects the reputation of Employer; (ii) dishonesty by Employee related to his employment; (iii) violation of a key Employer policy or this Agreement by Employee (including, but not limited to, acts of harassment or discrimination, use of unlawful drugs or drunkenness on Employer's premises during normal work hours); (iv) insubordination (i.e. conduct such as refusal to follow direct orders of the President or other individuals(s) to whom Employee reports; (v) dereliction of duty by Employee (e.g., failure to perform minimum duties after warning) and reasonable opportunity to correct; (vi) Employee's competition with Employer, diversion of any corporate opportunity or other similarly serious conflict of interest or self-dealing incurring to Employee's direct or indirect benefit and Employer's detriment; (vii) intentional or grossly negligent conduct by Employee that is significantly injurious to Employer or its affiliates; (viii) Employee's failure to meet the minimum goals of his position if such are provided in writing to Employee, and as such goals may be amended from time to time; and (ix) Employee's death or disability (i.e., Employee's inability to perform the essential job functions of the position with or without a reasonable accommodation).

(b) <u>Good Reason</u>. Good Reason shall mean a substantial diminution of employees' job responsibilities, salary or overall benefits by Employer or a greater than 50 mile change in Employee's primary place of employment (without the Employee's consent), whether by Employer or any successor in interest to Employer. For purposes of this Agreement the primary place of employment is Vancouver, WA. No event shall constitute "Good Reason" unless the Employee shall have notified the Company in writing of the conduct allegedly constituting Good

Reason and the Company shall have failed to correct such conduct within thirty (30) days of the date of its receipt of such written notice from the Employee. Moreover, unless Employee shall have notified the Company of the conduct allegedly constituting Good Reason within six months of the first occurrence of such conduct, then Employee shall have waived his right to claim that such conduct constitutes “Good Reason” under this Agreement.

(c) At-Will. At-will termination shall mean a termination by the Company where it does not seek to establish Cause or by Employee without Good Reason. If the Company exercises its right to terminate Employee without Cause, it shall provide the Employee with 365 days prior written notice of the termination of his employment (Notice of Termination), provided however, that at the Company’s sole discretion, it may immediately relieve Employee from all duties and responsibilities during the Notice Period. After receiving Notice of Termination, the Employee must continue to perform all duties and responsibilities, unless such duties are removed. If the Company exercises its option to relieve Employee of duties after the Company has provided Notice of Termination, then the Company shall continue to provide Employee with the basic benefits generally applicable to the Company’s employees and base salary during the Notice Period. If Employee exercises his right to terminate his employment without Good Reason, the Employee agrees to provide the Company with 21 days’ prior written notice of the termination of his employment (Notice of Termination). After receiving such Notice from the Employee, the Company retains the right to accept Employee’s resignation, and hence, terminate the employment relationship without the need for further payments, at an earlier date than provided in the Employee’s Notice of Termination.

7. Severance Upon Termination.

(a) Upon termination of Employee’s employment under this Agreement by the Company without Cause or by Employee for Good Reason (as defined hereunder), then, in lieu of any further salary, bonus, or other payments for periods subsequent to the Date of Termination, the Company shall pay to the Employee severance equal to twelve months average monthly annual base salary[1]. Such severance payment shall be made according to the Company’s normal payroll process spread out equally over the severance period. Violation of this Agreement or the Business Protection Agreement and/or failure to sign the Release and Waiver Agreement shall immediately relieve the Company from its payment obligation under this paragraph and entitle it to recover any amounts paid under this paragraph. This Section 7 shall be read in conjunction with Section 6 c, and entitles the employee to a maximum of 12 months salary and benefits under this Agreement.

(b) If the Company terminates the Employee’s employment during the term of this Agreement for Cause or if the Employee terminates his employment other than for Good Reason, then the Company shall have no further payment obligations to Employee.

(c) Except as it relates to the receipt of severance (which shall be solely granted under the terms of this Agreement), this Agreement shall not affect any payments due to Employee under applicable law as a result of the termination of his employment (such as payment of earned wages).

[1] The average annual monthly base salary shall be calculated using the average of the cash compensation received by Employee in the twelve months prior to the Date of Termination.

8. Return of Documents. Employee understands and agrees that all equipment, records, files, manuals, forms, materials, supplies, computer programs, and other materials furnished to the Employee by Employer or used on Employer's behalf, or generated or obtained during the course of his/her employment shall remain the property of Employer. Upon termination of this Agreement or at any other time upon the Company's request, Employee agrees to return all documents and property belonging to the Company in his possession including, but not limited to, customer lists, contracts, agreements, licenses, business plans, equipment, software, software programs, products, work-in-progress, source code, object code, computer disks, Confidential Information, books, notes and all copies thereof, whether in written, electronic or other form. In addition, Employee shall certify to the Company in writing as of the effective date of termination that none of the assets or business records belonging to the Company is in his/her possession, remain under his control, or have been transferred to any third person.

9. Confidential Information/Non-Competition. By virtue of his employment, Employee will have access to confidential, proprietary and trade secret information, the ownership and protection of which is very important to the Company. Employee hereby agrees to enter into a Business Protection Agreement with the Company concurrent with his entry into this Agreement. The Business Protection Agreement is attached as Exhibit A hereto.

10. Release of Claims. As a precondition to receipt of the severance provided in Section 6 c or 7(a) of this Agreement, Employee acknowledges and understands that he must sign a Waiver and Release of Claims Agreement. Such Agreement shall be substantially similar to the Agreement attached as Exhibit B. Employee understands that he will not be entitled to receive any payments under this Agreement until he executes and delivers the Waiver and Release of Claims Agreement, and the revocation period set forth in the Waiver and Release of Claims Agreement has run.

11. Assignment. This Agreement is personal, and is being entered into based upon the singular skill, qualifications and experience of Employee. Employee shall not assign this Agreement or any rights hereunder without the express written consent of Employer which may be withheld with or without reason. This Agreement will bind and benefit any successor of the Employer, whether by merger, sale of assets, reorganization or other form of business acquisition, disposition or business reorganization.

12. Notices. Any Notice of Termination or notice of good reason shall be in writing and shall be deemed to have been given or submitted (i) upon actual receipt if delivered in person or by facsimile transmission with confirmation of transmission, (ii) upon the earlier of actual receipt or the expiration of two (2) business days after sending by express courier (such as U.P.S. or Federal Express), and (iii) upon the earlier of actual receipt or the expiration of seven (7) business days after mailing if sent by registered or certified mail, postage prepaid, to the parties at the following addresses:

To the Company:	The Nautilus Group, Inc. 1400 NE 136th Avenue Vancouver, WA 98684 Attention: Human Resources

With a Copy to: Garvey, Schubert & Barer
1191 Second Avenue, 18^{th} Floor
Seattle, WA 98101-2939
Attention: Anne F. Preston

To Employee: Employee: Tim Hawkins

At the last address and fax number Shown on the records of the Company

Employee shall be responsible for providing the Company with a current address. Either party may change its address (and facsimile number) for purposes of notices under this Agreement by providing notice to the other party in the manner set forth above within ten business days.

13. Effect of Waiver. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach hereof. No waiver shall be valid unless in writing.

14. Entire Agreement. This Agreement, along with the Business Protection Agreement attached as Exhibit A, sets forth the entire agreement of the parties hereto and supersedes any and all prior agreements and understandings concerning Employee's employment by the Company. This Agreement may be changed only by a written document signed by Employee and the Company.

15. Governing Law/Jurisdiction/Venue. This Agreement shall be governed by, and construed and enforced in accordance with, the substantive and procedural laws of the State of Washington without regard to rules governing conflicts of law. For all disputes under this Agreement, the parties agree that any suit or action between them shall be instituted and commenced exclusively in the state courts in Clark County or King County Washington (U.S.A) or the United States District Court for the Western District of Washington, sitting in Seattle, Washington. Both parties waive the right to change such venue and hereby consent to the jurisdiction of such courts for all potential claims under this Agreement.

16. Acknowledgment. The Employee acknowledges that he has read and understands this Agreement, that he has had the opportunity to consult with an attorney regarding the terms and conditions hereof, and that he accepts and signs this Agreement as his own free act and in full and complete understanding of its present and future legal effect.

17. Relocation Assistance. The Company shall enter into an agreement with a relocation services provider to assist Employee in the sale of his primary residence. Said relocation services shall be on a basis normally provided to employees of similar position and level and will include reasonable and customary relocation services including the movement of household goods and a buyer value option program which will certain contain benefits in connection with the sale of his primary residence in Wisconsin and purchase of a residence in the Portland/Vancouver area.

18. Miscellaneous Benefits. Employee will be granted 5 weeks vacation upon assuming employment. Employee will also be entitled to a one time allowance of $10,000.00 (Ten Thousand dollars) to be used solely for the purchase of products manufactured and distributed by the Company.

Employee understands that this offer is contingent upon Employee satisfying the Company's standard reference/background check. The reference/background check varies depending on the position, but may include such items as a reference check, a background check, and/or a drug test.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

Employer: THE NAUTILUS GROUP, INC.

	/s/ Gregg Hammann	3-3-04
By	Gregg Hammann	Date
Its	C.E.O	
	/s/ Tim Hawkins	1-29-04
	Employee	Date

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is entered into as of September 24, 2002, by and between The Nautilus Group, Inc., a Washington corporation (the "Company" or "Employer"), and Stephen Eichen ("Employee"). In consideration of the premises and the mutual covenants and agreements hereinafter set forth, the Company and Employee hereby agree as follows:

1. Employment. Employee is being hired as Vice President of Information Technology. Employee shall (a) devote his/her professional entire time, attention, and energies to his/her position, (b) use his/her best efforts to promote the interests of Employer; (c) perform faithfully and efficiently his/her responsibilities and duties, and (d) refrain from any endeavor outside of his/her employment which interferes with his/her ability to perform his/her obligations hereunder. Employee shall initially report to the President of the Direct Division, and/or such other persons as may be designated by Employer, and perform his/her job duties subject to his/her general supervision, orders, advice and direction. Employee shall perform the duties normally associated with the position and/or such duties as delegated and assigned by the Company. Subject to the provisions of Section 7(b) herein, the Company retains the sole discretion to change Employee's position and/or duties as it deems appropriate.

Employee additionally agrees to abide by any general employment guidelines or policies adopted by Employer such as those detailed in an employer's handbook, as such guidelines or policies may be implemented and/or amended from time to time.

2. Salary. As compensation for services to be rendered hereunder, the Company shall pay Employee an initial annual salary in the gross amount of one hundred, ninety-five thousand dollars ($195,000). Said salary will be paid in accordance with the Company's existing payroll policies, and shall be subject to normal and/or authorized deductions and withholdings. At the sole discretion of the Company, Employee may also be granted bonuses and/or options to purchase Employer's stock from time to time. The amount of such bonus (if any) is determined at the discretion of The Nautilus Group.

Employee will receive an annual bonus of $45,000.00 at completion of one-year of employment. Or, Employee may receive relocation payment of $22,500 at the time of the sale of Bellevue residence and an additional $22,500.00 at the time of a new purchase of residence within 50-miles of The Nautilus Group, Inc. in Vancouver, WA. Employee may also receive up to $10,000.00 bonus upon successful completion of Dot-Corp before 2003 as defined by utilizing IP (Epiphanies Interaction Platform) in the call center for Bowflex.

3. Stock Options. Pursuant to the Company's current Stock Option Plan (the "Plan"), the Company shall recommend that Employee receive options ("Options") to purchase 10,000 shares of Employer's stock. The terms of any option grant shall be governed by the Plan and a Stock Option Agreement (the "Option Agreement"). Employee acknowledges that any stock options granted do not, and will not, constitute wages or compensation. Unless otherwise provided in the Plan or required by law, the Board of Directors of Employer shall have sole discretion regarding the grant of options, price of options, the vesting schedule and all other terms and conditions of the option grant.

4. <u>Expenses</u>. The Company will reimburse Employee for all necessary and reasonable travel, entertainment and other business expenses incurred by him in the performance of his/her duties hereunder, upon receipt of signed itemized lists of such expenditures with appropriate back-up documentation, and/or in accordance with such other reasonable procedures as the Company may adopt generally from time to time.

5. <u>Health and Welfare Benefits</u>. Upon satisfaction of eligibility criteria, the Employee shall be eligible to receive employee benefits, if any, generally provided to its employees by Employer, including, if provided, medical insurance, paid-time off. Such benefits may be amended or discontinued by Employer at any time.

The company will honor four weeks of paid-time off (PTO), upon commencement of employment and each year thereafter. If you shall end your employment prior to your one-year anniversary any accrued PTO not taken will not be reimbursed upon termination.

You will be expected to relocate to the Vancouver, Washington geographic area before September 2003. The company will reimburse for allowable moving expenses as described under IRS publication 521 upon agreement of reviewing at least three different relocation proposals. If you shall terminate your employment or if your employment is terminated for cause prior to your one-year anniversary, you will owe The Nautilus Group, Inc. any reimbursed amount. Employee will also receive monthly payments for corporate housing at actual cost not to exceed $1,500.00 per month for a period not to exceed ten months. This will be payable on the first payroll check date of each month beginning on October 4, 2002.

6. <u>Termination</u>. The parties acknowledge that Employee's employment with the Company is "at-will" and may be terminated by either party with or without cause. No one other than the President of the Company or the Board of Directors has the power to change the at-will character of the employment relationship. As discussed below, however, the various possible ways in which Employee's employment with the Company may be terminated will determine the payments that may be due to Employee under this Agreement. As used in this Agreement, the following terms have the following meanings:

(a) <u>Cause</u>. As used in this Agreement, Cause means (i) Employee's indictment or conviction in a court of law for any crime or offense that in Employer's reasonable judgment makes Employee unfit for continued employment, prevents Employee from performing Employee's duties or other obligations or adversely affects the reputation of Employer; (ii) dishonesty by Employee related to his/her employment; (iii) violation of a key Employer policy or this Agreement by Employee (including, but not limited to, acts of harassment or discrimination, use of unlawful drugs or drunkenness on Employer's premises during normal work hours); (iv) insubordination (i.e. conduct such as refusal to follow direct orders of the President or other individuals(s) to whom Employee reports; (v) dereliction of duty by Employee (e.g., failure to perform minimum duties after warning) and reasonable opportunity to correct; (vi) Employee's competition with Employer, diversion of any corporate opportunity or other similarly serious conflict of interest or self-dealing incurring to Employee's direct or indirect benefit and Employer's detriment; (vii) intentional or grossly negligent conduct by Employee that is significantly injurious to Employer or its affiliates; (viii) Employee's failure to meet the minimum goals of his position if such are provided in writing to Employee, and as such goals may be amended from time to time; and (ix) Employee's death or disability (i.e., Employee's inability to perform the essential job functions of the position with or without a reasonable accommodation).

(b) Good Reason. Good Reason shall mean a substantial diminution of employees' job responsibilities, salary or overall benefits by Employer or a greater than 50 mile change in Employee's primary place of employment (without the Employee's consent), whether by Employer or any successor in interest to Employer. No event shall constitute "Good Reason" unless the Employee shall have notified the Company in writing of the conduct allegedly constituting Good Reason and the Company shall have failed to correct such conduct within thirty (30) days of the date of its receipt of such written notice from the Employee. Moreover, unless Employee shall have notified the Company of the conduct allegedly constituting Good Reason within six months of the first occurrence of such conduct, then Employee shall have waived his right to claim that such conduct constitutes "Good Reason" under this Agreement.

(c) At-Will. At-will termination shall mean a termination by the Company where it does not seek to establish Cause or by Employee without Good Reason. If the Company exercises its right to terminate Employee without Cause, it shall provide the Employee with 120-days prior written notice of the termination of his/her employment (Notice of Termination), provided however, that at the Company's sole discretion, it may immediately relieve Employee from all duties and responsibilities during the Notice Period. After receiving Notice of Termination, the Employee must continue to perform all duties and responsibilities, unless such duties are removed. If the Company exercises its option to relieve Employee of duties after the Company has provided Notice of Termination, then the Company shall continue to provide Employee with the basic benefits generally applicable to the Company's employees and base salary during the Notice Period. If Employee exercises his/her right to terminate his/her employment without Good Reason, the Employee agrees to provide the Company with 90-days' prior written notice of the termination of his employment (Notice of Termination). After receiving such Notice from the Employee, the Company retains the right to accept Employee's resignation, and hence, terminate the employment relationship without the need for further payments, at an earlier date than provided in the Employee's Notice of Termination.

7. Severance Upon Termination.

(a) Upon termination of Employee's employment under this Agreement by the Company without Cause or by Employee for Good Reason (as defined hereunder), then, in lieu of any further salary, bonus, or other payments for periods subsequent to the Date of Termination, the Company shall pay to the Employee severance equal to 120-days average monthly annual base salary[1] less amounts earned by Employee from substantially equivalent subsequent employment or work as an independent contractor ("Subsequent Employment")

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[1] The average annual monthly base salary shall be calculated using the average of the cash compensation received by Employee in the twelve months prior to the Date of Termination.

Employee covenants that, upon termination of his/her employment during the term of this agreement by the Company without Cause or by Employee for Good Reason (as defined hereunder), he/she will exercise his/her best efforts to find and remain engaged in Subsequent Employment. Such severance payment shall be made according to the Company's normal payroll process spread out equally over the severance period. Violation of this Agreement or the Business Protection Agreement and/or failure to sign the Release and Waiver Agreement shall immediately relieve the Company from its payment obligation under this paragraph and entitle it to recover any amounts paid under this paragraph.

(b) If the Company terminates the Employee's employment during the term of this Agreement for Cause or if the Employee terminates his/her employment other than for Good Reason, then the Company shall have no further payment obligations to Employee.

(c) Except as it relates to the receipt of severance (which shall be solely granted under the terms of this Agreement), this Agreement shall not affect any payments due to Employee under applicable law as a result of the termination of his/her employment (such as payment of earned wages).

8. Return of Documents. Employee understands and agrees that all equipment, records, files, manuals, forms, materials, supplies, computer programs, and other materials furnished to the Employee by Employer or used on Employer's behalf, or generated or obtained during the course of his/her employment shall remain the property of Employer. Upon termination of this Agreement or at any other time upon the Company's request, Employee agrees to return all documents and property belonging to the Company in his/her possession including, but not limited to, customer lists, contracts, agreements, licenses, business plans, equipment, software, software programs, products, work-in-progress, source code, object code, computer disks, Confidential Information, books, notes and all copies thereof, whether in written, electronic or other form. In addition, Employee shall certify to the Company in writing as of the effective date of termination that none of the assets or business records belonging to the Company is in his/her possession, remain under his control, or have been transferred to any third person.

9. Confidential Information/Non-Competition. By virtue of his/her employment, Employee will have access to confidential, proprietary and trade secret information, the ownership and protection of which is very important to the Company. Employee hereby agrees to enter into a Business Protection Agreement with the Company concurrent with his/her entry into this Agreement. The Business Protection Agreement is attached as Exhibit A hereto.

10. Release of Claims. As a precondition to receipt of the severance provided in Section 7(a) of this Agreement, Employee acknowledges and understands that he/she must sign a Waiver and Release of Claims Agreement. Such Agreement shall be substantially similar to the Agreement attached as Exhibit B. Employee understands that he/she will not be entitled to receive any payments under this Agreement until he/she executes and delivers the Waiver and Release of Claims Agreement, and the revocation period set forth in the Waiver and Release of Claims Agreement has run.

11. Assignment. This Agreement is personal, and is being entered into based upon the singular skill, qualifications and experience of Employee. Employee shall not assign this

Agreement or any rights hereunder without the express written consent of Employer which may be withheld with or without reason. This Agreement will bind and benefit any successor of the Employer, whether by merger, sale of assets, reorganization or other form of business acquisition, disposition or business reorganization.

12. Notices. Any Notice of Termination or notice of good reason shall be in writing and shall be deemed to have been given or submitted (i) upon actual receipt if delivered in person or by facsimile transmission with confirmation of transmission, (ii) upon the earlier of actual receipt or the expiration of two (2) business days after sending by express courier (such as U.P.S. or Federal Express), and (iii) upon the earlier of actual receipt or the expiration of seven (7) business days after mailing if sent by registered or certified mail, postage prepaid, to the parties at the following addresses:

To the Company:	The Nautilus Group, Inc. 1400 NE 136th Avenue Vancouver, WA 98684 Attention: Human Resources
With a Copy to:	Garvey, Schubert & Barer 1191 Second Avenue, 18th Floor Seattle, WA 98101-2939 Attention: Anne F. Preston
To Employee:	Stephen Eichen 13521 SE 57th Street Bellevue, WA 98006; or last address Shown on the records of the Company

Employee shall be responsible for providing the Company with a current address. Either party may change its address (and facsimile number) for purposes of notices under this Agreement by providing notice to the other party in the manner set forth above within ten business days.

13. Effect of Waiver. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach hereof. No waiver shall be valid unless in writing.

14. Entire Agreement. This Agreement, along with the Business Protection Agreement attached as Exhibit A, sets forth the entire agreement of the parties hereto and supersedes any and all prior agreements and understandings concerning Employee's employment by the Company. This Agreement may be changed only by a written document signed by Employee and the Company.

15. Governing Law/Jurisdiction/Venue. This Agreement shall be governed by, and construed and enforced in accordance with, the substantive and procedural laws of the State of Washington without regard to rules governing conflicts of law. For all disputes under this Agreement, the parties agree that any suit or action between them shall be instituted and commenced exclusively in the state courts in Clark County or King County Washington (U.S.A) or the United States District Court for the Western District of Washington, sitting in Seattle, Washington. Both parties waive the right to change such venue and hereby consent to the jurisdiction of such courts for all potential claims under this Agreement.

16. Acknowledgment. The Employee acknowledges that he/she has read and understands this Agreement, that he has had the opportunity to consult with an attorney regarding the terms and conditions hereof, and that he/she accepts and signs this Agreement as his/her own free act and in full and complete understanding of its present and future legal effect.

Employee understands that this offer is contingent upon Employee satisfying the Company's standard reference/background check. The reference/background check varies depending on the position, but may include such items as a reference check, a background check, and/or a drug test.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

Employer: THE NAUTILUS GROUP, INC.

By

Its

Date

/s/ Stephen Eichen

Employee

9-23-02

Date

EXHIBIT 10.13

EMPLOYMENT AGREEMENT

This Agreement between Bow Flex, Inc, a Washington Corporation, hereinafter referred to as employer, and RODNEY W. RICE, hereinafter referred to as employee, shall be effective as of January 1, 1998.

1. Employment.

Employer employs employee to fill the position of VICE PRESIDENT OF FINANCE/CHIEF FINANCIAL OFFICER, and employee accepts such employment with employer, subject to the terms and conditions of this agreement.

2. Terms of Employment.

The initial term of employment under this Agreement shall commence on the effective date and shall end one year from the effective date. However, this agreement shall be automatically renewed for additional one-year terms unless, not less than ninety (90) days prior to the end of the initial term or of any such renewal term, employer delivers to employee a written notice of employer's President confirming that this Agreement will not be continued beyond the applicable term. Except for cause, such as a breach by employee of employee's duties under this Agreement, Employer may only terminate employee's term of employment at the end of the initial term or any renewal term, and only upon written notice delivered not less than ninety (90) days prior to the end of the applicable term.

3. Employee's Duties

Employee shall serve employer faithfully and to the best of employee's ability under the direction of employer's President. During any term of this Agreement, employee will devote his full business and professional time, energy and skill to employment and shall pursue no other business or employment activities which employer may deem to interfere with or detract from the performance of employee's duties under this Agreement. Employee shall perform such services and act in such executive capacities as employer's President shall direct. Employee shall disclose to employer any business ideas related to the employer's present or planned business activities, such as ideas for new products or marketing strategies, whether or not patentable, which shall come to employee's attention during any term of this Agreement, and all such ideas or new products and strategies shall be and forever remain the exclusive property of employer. Employee shall execute such documents, if any, as reasonably necessary, in the opinion of employer's President, to convey to employer exclusive right to such ideas, products or strategies, even if employer's President asks employee to execute such documents after termination of employment.

4. Compensation.

Employee's salary shall be Ninety Thousand Dollars ($90,000.00) per year. At the discretion of employer's Board of Directors, employee's salary may be increased, but not decreased, during the initial term or during any renewal term. Employer shall pay employee's salary in equal monthly or semi-monthly installments. At the discretion of employer's President and Board of Directors, employee may also be granted bonuses and/or options to purchase employer's stock.

5. Reimbursement for Expenses.

Employer shall reimburse employee for reasonable out-of-pocket expense that employee shall incur in connection with services for employer on presentation by employee of appropriate vouchers and receipts for such expenses.

6. Other Compensation and Benefits.

Employee's paid vacation (three weeks per year), paid sick leave (one week per year cumulative to thirty days), health insurance, and other employee benefits (including holidays) shall continue and may not be diminished from those provided to employee during 1997. Employee shall be permitted to participate in any additional benefits, such as qualified pension plans, as the employer's Board of Directors shall make available to other managerial employees of employer.

7. Employer's Obligations on Termination.

If employer desires to terminate employee's employment at the end of the initial term or any renewal term, employer's President must deliver to employee a written notice of nonrenewal not less than ninety (90) days before expiration of the applicable term. In such case, employer shall continue to pay employee and employee shall continue to perform employee's duties under this employment agreement until the end of the applicable term.

Except for termination of employment for cause or effective as of the end of any term of employment after proper ninety (90) days advance notice has been delivered to employee, any notice of termination of employee's employment by employer shall cause all unpaid salary which would be due over the remaining term of employment to become immediately due and payable. Employee's right to receive or to retain the amount required by this Section of the Agreement is not dependent upon employee's effort to mitigate damages by seeking employment elsewhere and shall be the property of employee whether or not employees seeks or obtains additional employment during any unexpired term of this Agreement.

Upon termination of this Agreement, employer shall also perform each of employer's obligations under any other agreement(s) between employer and employee, including, without limitation, any bonus or stock option agreements. However, notwithstanding any other agreements to the contrary, if employee has failed to exercise stock options before termination of employment, for whatever reason, the options shall be canceled and non-exercisable; if employee voluntarily terminates employment without giving at least ninety (90) days notice, any unexercised stock options shall be canceled and non-exercisable and any stock options exercised within the six (6) months of the actual termination of employment shall be rescinded and/or employee shall immediately pay to employer the proceeds from the sale of shares acquired from the exercise of options within such six (6) month period, less the option exercise price; if employee voluntarily terminates employment by giving at least ninety (90) days notice, employee shall not be permitted to exercise any unexercised stock option within ninety (90) days of the last day of employment, but shall be able to retain shares or profits from shares purchase more than ninety (90) days from the actual date of termination of employment.

8. <u>Covenant Not to Compete</u>.

Employee agrees that during any term of this Agreement and for a period of one year after termination of employment under this Agreement, employee will not directly or indirectly be connected with or acquire any equity interest or a right to acquire an equity interest in or be employed by or otherwise provide information or services to any person, firm, corporation or other entity which is engaged in any similar or competing direct marketing business or which is otherwise selling any products that compete with employer's products existing or under development as of the effective date of the termination or products which were or ought to have been disclosed and/or conveyed to employer under Section 3.

9. <u>Solicitation of Employer's Opportunities</u>.

Employee agrees that during any term of this Agreement and for a period of one year after termination of employment under this Agreement, whether on behalf of employee or on behalf of or in conjunction with any other person, firm, corporation or other entity, employee will not directly or indirectly solicit, divert, or take away any customer or prospects of employer, its affiliates or its subsidiaries. Employee shall not contact any such customer or prospect for the purposes of soliciting sales of and/or providing to any such customers or prospects any products that compete with employer's products existing or under development as of the effective date of the termination or products which were or ought to have been disclosed and/or conveyed to employer under Section 3.

10. <u>Solicitation of Employer's Employees</u>.

Employee agrees that during any term of this Agreement and for a period of one year after termination of employment under this Agreement, whether on behalf of employee or on behalf of or in conjunction with any other person, firm, corporation or other entity, employee will not directly or indirectly solicit or attempt to recruit any person then employed by employer, its affiliates or its subsidiaries, to perform personal services for another, whether as a prospective employee, prospective consultant or partner in any other venture. Employee shall not cooperate in any way with any person or entity with respect to any possible solicitation or recruitment of a person then employed by employer.

11. <u>Use of Confidential Information</u>.

Employee agrees that employee will not communicate to any person, firm, corporation or other entity any information relating to customer lists, prices, secrets, advertising, strategies, nor nay confidential knowledge of secrets or business practices that employee might from time to time acquire with respect to the business of employer, or any of its affiliates or subsidiaries.

12. <u>Injunctive Relief</u>.

Employee acknowledges that violation of any of the four immediately preceding sections of this Agreement could cause employer harm which is irreparable or extremely difficult to quantify, and employee therefore agrees that for any of the four immediately preceding sections of this Agreement, in addition to any other rights or remedies available under this Agreement, employer shall be entitled to immediate temporary restraining orders and/or preliminary or permanent injunctions to be issued by any court of competent jurisdiction, enjoining and restraining employee from committing any violation of any of the four immediately preceding sections of this Agreement, and employee consents to the issuance of such immediate temporary restraining orders without advance notice or hearing upon such terms as are required by any court, and to the entry of preliminary or permanent injunctions after notice and hearing and entry of appropriate findings of a violation by employee or that a violation is likely unless injunctive relief is granted.

13. <u>Termination by Employee</u>.

If employer shall cease conducting its business or take any action looking toward its dissolution or liquidation (except as part of a business transaction such as a merger or consolidation with another company or group of companies which will acquire and operate the employer's business), or if employer shall make an assignment for the benefit of its creditors or admit an inability to pay its debts as they become due or file a voluntary petition in bankruptcy or become a subject of an involuntary petition in bankruptcy not dismissed within sixty days, or if employer shall become the subject of any other insolvency proceeding, then employee may immediately terminate employment by written notice delivered to employer's President. Under such circumstances, employer agrees that the provisions of Sections 8, 9, 10, 11 and 12 shall also terminate. Under all other circumstances, employee shall be obligated to provide not less than ninety (90) days advance written notice of termination of employment, and the provisions of Sections 8, 9, 10, 11 and 12 shall survive employee's termination of employment.

14. <u>Binding Effect</u>.

This Agreement shall be binding upon and shall inure to the benefit of any successor or successors of employer and on the personal representative of employee.

15. <u>Governing Law</u>.

It is agreed that this Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington.

16. <u>The Entire Agreement</u>.

This Agreement constitutes the entire employment contract between the parties. Any inconsistent prior understanding or representation of any kind preceding the date of this Agreement shall not be binding upon either party. This Agreement shall not supersede or replace consistent agreements, such as bonus or stock option agreements, between employer and employee.

17. Modification of Agreement.

Any modification of this Agreement or any additional obligation assumed by either party in connection with this Agreement shall be binding only if in writing and signed by each party or an authorized representative of each party.

18. No Waiver.

The failure of either party to this Agreement to insist upon the performance of any of the terms and conditions of this Agreement, or the waiver of any breach of any terms and conditions of this Agreement, shall not be construed as thereafter waiving any such terms and conditions, but the same shall continue and remain in full force and effect as if no such forbearance or waiver had occurred.

19. Attorney Fees.

In the event that any action is filed in relation to this Agreement, the court shall award to the prevailing party, in addition to all other sums that either party may be called on to pay, a reasonable sum for the prevailing party's attorney fees and costs.

20. Notices.

Any notice provided for in this Agreement, including notice of any hearing required in connection with any relief that the employer seeks under Section 12, shall be in writing and shall be deemed sufficiently given when personally delivered or two days after being mailed, with proper postage prepaid, by regular first class and by certified or registered mail with return receipt requested, if sent to the respective addresses of each party as set forth below:

To Employer:	Bow Flex, Inc. 2200 NE 65th Avenue Vancouver, WA 98661
To Employee:	Rodney W. Rice

Employee shall notify employer of any change of address during any term of this Agreement and during the first year following termination of employee's employment under this Agreement.

21. Hold Harmless and Indemnification.

Employer shall defend, indemnify and hold employee harmless with respect to any claims made against employee because employee is or was an officer or director of employer if (1) employee acted in good faith; and (2) employee reasonably believed (a) in the case of conduct in the employee's official capacity with employer, that the employee's conduct was in employer's best interest, and (b) in all other cases, that the employee's conduct was at least not opposed to employer's best interests; and (3) in the case of any criminal proceeding, the employee had no reasonable cause to believe the employee's conduct was unlawful. If employee is party to such a proceeding because employee is or was an officer or director of employer, employer shall pay for or reimburse the reasonable expenses incurred by employee in advance of a final disposition of the proceeding if (1) employee furnishes employer a written affirmation of the employee's good faith belief that the employee has met the standard of conduct described above and (2) employee furnishes the corporate a written undertaking, executed personally or on the employee's behalf, to repay the advance if it is ultimately determined that employee did not meet the above standard of conduct. Any such undertaking need not be secured and shall be accepted without reference to employee's natural ability to make repayment. Nothing herein shall restrict or limit any other rights or any other procedures for indemnification provided under RCW ch.23B.08.

Signed this 22 day of April 1998, effective as of January 1, 1998

BOW FLEX, INC.

/s/ Rodney W. Rice	By: /s/ Brian R. Cook
Rodney W. Rice	Brian R. Cook, President

EXHIBIT 10.14

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is entered into as of January 14, 2004, by and between The Nautilus Group, Inc., a Washington corporation (the "Company" or "Employer"), and Darryl Thomas ("Employee"). In consideration of the premises and the mutual covenants and agreements hereinafter set forth, the Company and Employee hereby agree as follows:

1. Employment. Employee is being hired as Senior Vice President of Strategic Planning. Employee shall (a) devote his professional entire time, attention, and energies to his position, (b) use his best efforts to promote the interests of Employer; (c) perform faithfully and efficiently his responsibilities and duties, and (d) refrain from any endeavor outside of his employment which interferes with his ability to perform his obligations hereunder. Employee shall report to the President and Chief Executive Officer, and/or such other persons as may be designated by Employer, and perform his job duties subject to his general supervision, orders, advice and direction. Employee shall perform the duties normally associated with the position and/or such duties as delegated and assigned by the Company. Subject to the provisions of Section 7(b) herein, the Company retains the sole discretion to change Employee's position and/or duties as it deems appropriate.

Employee additionally agrees to abide by any general employment guidelines or policies adopted by Employer such as those detailed in an employer's handbook, as such guidelines or policies may be implemented and/or amended from time to time.

2. Salary. As compensation for services to be rendered hereunder, the Company shall pay Employee an initial annual salary in the gross amount of Two hundred twenty thousand dollars ($220,000). Said salary will be paid in accordance with the Company's existing payroll policies, and shall be subject to normal and/or authorized deductions and withholdings. Employee will be eligible to receive an annual bonus up to forty-percent (40%) of Employee's base salary. The amount of such bonus (if any) is determined at the discretion of the Company. Employee shall also be entitled to receive a one-time bonus payment in the gross amount of $100,000 payable on Employee obtaining residency in the state of Washington, from which normal and/or authorized deductions and withholdings may be made. Said bonus payments will vest in 1/24th increments over a 2 year period beginning in January 2004. Should employee resign from the Company between January 2004 and January 31, 2006 he will re-pay a pro rata amount of that bonus for any remaining time that he is no longer employed prior to January 31, 2006. For example, should employee resign after 11 months, he will repay the Company 13/24ths of the gross bonus amount to reflect that fact that she resigned 13 months before fulfilling the 24 month employment commitment.

3. Stock Options. Pursuant to the Company's current Stock Option Plan (the "Plan"), the Company shall recommend that Employee receive options ("Options") to purchase 25,000 shares of Employer's stock at a price of $13.59 per share. The terms of any option grant shall be governed by the Plan and a Stock Option Agreement (the "Option Agreement"). Employee acknowledges that any stock options granted do not, and will not, constitute wages or compensation. Unless otherwise provided in the Plan or required by law, the Board of Directors of Employer shall have sole discretion regarding the grant of options, price of options, the vesting schedule and all other terms and conditions of the option grant.

4. Expenses. The Company will reimburse Employee for all necessary and reasonable travel, entertainment and other business expenses incurred by him in the performance of his duties hereunder, upon receipt of signed itemized lists of such expenditures with appropriate back-up documentation, and/or in accordance with such other reasonable procedures as the Company may adopt generally from time to time.

5. Health and Welfare Benefits. Upon satisfaction of eligibility criteria, the Employee shall be eligible to receive employee benefits, if any, generally provided to its employees by Employer, including, if provided, medical insurance, paid-time off. Such benefits may be amended or discontinued by Employer at any time.

6. Termination. The parties acknowledge that Employee's employment with the Company is "at-will" and may be terminated by either party with or without cause. No one other than the President and Chief Executive Officer of the Company or the Board of Directors has the power to change the at-will character of the employment relationship. As discussed below, however, the various possible ways in which Employee's employment with the Company may be terminated will determine the payments that may be due to Employee under this Agreement. As used in this Agreement, the following terms have the following meanings:

(a) Cause. As used in this Agreement, Cause means (i) Employee's indictment or conviction in a court of law for any crime or offense that in Employer's reasonable judgment makes Employee unfit for continued employment, prevents Employee from performing Employee's duties or other obligations or adversely affects the reputation of Employer; (ii) dishonesty by Employee related to his employment; (iii) violation of a key Employer policy or this Agreement by Employee (including, but not limited to, acts of harassment or discrimination, use of unlawful drugs or drunkenness on Employer's premises during normal work hours); (iv) insubordination (i.e. conduct such as refusal to follow direct orders of the President or other individuals(s) to whom Employee reports; (v) dereliction of duty by Employee (e.g., failure to perform minimum duties after warning) and reasonable opportunity to correct; (vi) Employee's competition with Employer, diversion of any corporate opportunity or other similarly serious conflict of interest or self-dealing incurring to Employee's direct or indirect benefit and Employer's detriment; (vii) intentional or grossly negligent conduct by Employee that is significantly injurious to Employer or its affiliates; (viii) Employee's failure to meet the minimum goals of his position if such are provided in writing to Employee, and as such goals may be amended from time to time; and (ix) Employee's death or disability (i.e., Employee's inability to perform the essential job functions of the position with or without a reasonable accommodation).

(b) Good Reason. Good Reason shall mean a substantial diminution of employees' job responsibilities, salary or overall benefits by Employer or a greater than 50 mile change in Employee's primary place of employment (without the Employee's consent), whether by Employer or any successor in interest to Employer. No event shall constitute "Good Reason" unless the Employee shall have notified the Company in writing of the conduct allegedly constituting Good Reason and the Company shall have failed to correct such conduct within thirty (30) days of the date of its receipt of such written notice from the Employee. Moreover, unless Employee shall have notified the Company of the conduct allegedly constituting Good Reason within six months of the first occurrence of such conduct, then Employee shall have waived his right to claim that such conduct constitutes "Good Reason" under this Agreement.

(c) At-Will. At-will termination shall mean a termination by the Company where it does not seek to establish Cause or by Employee without Good Reason. If the Company exercises its right to terminate Employee without Cause, it shall provide the Employee with 365 days prior written notice of the termination of his employment (Notice of Termination), provided however, that at the Company's sole discretion, it may immediately relieve Employee from all duties and responsibilities during the Notice Period. After receiving Notice of Termination, the Employee must continue to perform all duties and responsibilities, unless such duties are removed. If the Company exercises its option to relieve Employee of duties after the Company has provided Notice of Termination, then the Company shall continue to provide Employee with the basic benefits generally applicable to the Company's employees and base salary during the Notice Period. If Employee exercises his right to terminate his employment without Good Reason, the Employee agrees to provide the Company with 21 days' prior written notice of the termination of his employment (Notice of Termination). After receiving such Notice from the Employee, the Company retains the right to accept Employee's resignation, and hence, terminate the employment relationship without the need for further payments, at an earlier date than provided in the Employee's Notice of Termination.

7. Severance Upon Termination.

(a) Upon termination of Employee's employment under this Agreement by the Company without Cause or by Employee for Good Reason (as defined hereunder), then, in lieu of any further salary, bonus, or other payments for periods subsequent to the Date of Termination, the Company shall pay to the Employee severance equal to 12 months average monthly annual base salary[1]. Such severance payment shall be made according to the Company's normal payroll process spread out equally over the severance period. Violation of this Agreement or the Business Protection Agreement and/or failure to sign the Release and Waiver Agreement shall immediately relieve the Company from its payment obligation under this paragraph and entitle it to recover any amounts paid under this paragraph. This Section shall be read in conjunction with Section 6 c, and shall entitle Employee to a maximum of 12 months severance, benefits, or notice under this Agreement.

(b) If the Company terminates the Employee's employment during the term of this Agreement for Cause or if the Employee terminates his employment other than for Good Reason, then the Company shall have no further payment obligations to Employee.

(c) Except as it relates to the receipt of severance (which shall be solely granted under the terms of this Agreement), this Agreement shall not affect any payments due to Employee under applicable law as a result of the termination of his employment (such as payment of earned wages).

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1 The average annual monthly base salary shall be calculated using the average of the cash compensation received by Employee in the twelve months prior to the Date of Termination.

8. Return of Documents. Employee understands and agrees that all equipment, records, files, manuals, forms, materials, supplies, computer programs, and other materials furnished to the Employee by Employer or used on Employer's behalf, or generated or obtained during the course of his/her employment shall remain the property of Employer. Upon termination of this Agreement or at any other time upon the Company's request, Employee agrees to return all documents and property belonging to the Company in his possession including, but not limited to, customer lists, contracts, agreements, licenses, business plans, equipment, software, software programs, products, work-in-progress, source code, object code, computer disks, Confidential Information, books, notes and all copies thereof, whether in written, electronic or other form. In addition, Employee shall certify to the Company in writing as of the effective date of termination that none of the assets or business records belonging to the Company is in his/her possession, remain under his control, or have been transferred to any third person.

9. Confidential Information/Non-Competition. By virtue of his employment, Employee will have access to confidential, proprietary and trade secret information, the ownership and protection of which is very important to the Company. Employee hereby agrees to enter into a Business Protection Agreement with the Company concurrent with his entry into this Agreement. The Business Protection Agreement is attached as Exhibit A hereto.

10. Release of Claims. As a precondition to receipt of the severance provided in Section 7(a) of this Agreement, Employee acknowledges and understands that he must sign a Waiver and Release of Claims Agreement. Such Agreement shall be substantially similar to the Agreement attached as Exhibit B. Employee understands that he will not be entitled to receive any payments under this Agreement until he executes and delivers the Waiver and Release of Claims Agreement, and the revocation period set forth in the Waiver and Release of Claims Agreement has run.

11. Assignment. This Agreement is personal, and is being entered into based upon the singular skill, qualifications and experience of Employee. Employee shall not assign this Agreement or any rights hereunder without the express written consent of Employer which may be withheld with or without reason. This Agreement will bind and benefit any successor of the Employer, whether by merger, sale of assets, reorganization or other form of business acquisition, disposition or business reorganization.

12. Notices. Any Notice of Termination or notice of good reason shall be in writing and shall be deemed to have been given or submitted (i) upon actual receipt if delivered in person or by facsimile transmission with confirmation of transmission, (ii) upon the earlier of actual receipt or the expiration of two (2) business days after sending by express courier (such as U.P.S. or Federal Express), and (iii) upon the earlier of actual receipt or the expiration of seven (7) business days after mailing if sent by registered or certified mail, postage prepaid, to the parties at the following addresses:

To the Company:	The Nautilus Group, Inc. 1400 NE 136th Avenue Vancouver, WA 98684 Attention: Human Resources

With a Copy to:	Garvey, Schubert & Barer 1191 Second Avenue, 18th Floor Seattle, WA 98101-2939 Attention: Anne F. Preston
To Employee:	Employee: Darryl Thomas At the last address and fax number Shown on the records of the Company

Employee shall be responsible for providing the Company with a current address. Either party may change its address (and facsimile number) for purposes of notices under this Agreement by providing notice to the other party in the manner set forth above within ten business days.

13. Effect of Waiver. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach hereof. No waiver shall be valid unless in writing.

14. Entire Agreement. This Agreement, along with the Business Protection Agreement attached as Exhibit A, sets forth the entire agreement of the parties hereto and supersedes any and all prior agreements and understandings concerning Employee's employment by the Company. This Agreement may be changed only by a written document signed by Employee and the Company.

15. Governing Law/Jurisdiction/Venue. This Agreement shall be governed by, and construed and enforced in accordance with, the substantive and procedural laws of the State of Washington without regard to rules governing conflicts of law. For all disputes under this Agreement, the parties agree that any suit or action between them shall be instituted and commenced exclusively in the state courts in Clark County or King County Washington (U.S.A) or the United States District Court for the Western District of Washington, sitting in Seattle, Washington. Both parties waive the right to change such venue and hereby consent to the jurisdiction of such courts for all potential claims under this Agreement.

16. Acknowledgment. The Employee acknowledges that he has read and understands this Agreement, that he has had the opportunity to consult with an attorney regarding the terms and conditions hereof, and that he accepts and signs this Agreement as his own free act and in full and complete understanding of its present and future legal effect.

17. Relocation Assistance. The Company shall enter into an agreement with a relocation services provider to assist Employee in the sale of his primary residence. Said relocation services shall be on a basis normally provided to employees of similar position and level and will include reasonable and customary relocation services including the movement of household goods and a buyer value option program which will certain contain benefits in connection with the sale of his primary residence in California and purchase of a residence in the Portland/Vancouver area.

Employee understands that this offer is contingent upon Employee satisfying the Company's standard reference/background check. The reference/background check varies depending on the position, but may include such items as a reference check, a background check, and/or a drug test.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

Employer: THE NAUTILUS GROUP, INC.

	/s/ Gregg Hammann	1-28-04
By	Gregg Hammann	Date
Its	C.E.O	
	/s/ Darryl Thomas	1-14-04
	Employee	Date

EXHIBIT 21

SUBSIDIARIES OF NAUTILUS, INC.

Nautilus Direct, Inc., a Washington corporation
Nautilus Human Performance Systems, Inc., a Virginia corporation
The Nautilus Group Sales Corporation, a Washington corporation
DFI Properties, LLC, a Virginia limited liability company
BFI Advertising, Inc., a Washington corporation
DFI Leaseco, LLC, a Washington limited liability company
Nautilus/Schwinn Fitness Group, Inc., a Colorado corporation
DF Hebb Industries, Inc., a Texas corporation
StairMaster Health & Fitness Products, Inc., a Washington corporation
The Nautilus Health & Fitness Group International Holdings, S.A., a Swiss corporation
The Nautilus Health & Fitness Group International, S.A., a Swiss corporation
The Nautilus Health & Fitness Group Switzerland, S.A., a Swiss corporation
The Nautilus Health & Fitness Group Germany GmbH, a German corporation
The Nautilus Health & Fitness Group UK Ltd., a United Kingdom corporation
Schwinn UK Ltd., a United Kingdom corporation
Nautilus Fitness Academy UK Ltd., a United Kingdom corporation
Schwinn Fitness Academy UK Ltd., a United Kingdom corporation
The Nautilus Health & Fitness Group Italy S.r.l., an Italian corporation

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-46936 and 333-79643 on Forms S-8 of our reports dated March 14, 2005 relating to the financial statements of Nautilus, Inc. (formerly The Nautilus Group, Inc.) and management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Nautilus, Inc. for the year ended December 31, 2004.

DELOITTE & TOUCHE LLP

Portland, Oregon
March 14, 2005

EXHIBIT 24.1

POWER OF ATTORNEY

PETER A. ALLEN

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, Peter A. Allen, hereby constitutes and appoints Greggory C. Hammann or Rod W. Rice, severally and not jointly, his true and lawful attorney-in-fact and agent, for him and his name, place and stead, in any and all capacities, to sign the Form 10-K of Nautilus, Inc., a Washington corporation, for the fiscal year ended December 31, 2004, and any amendments or supplements thereto, and to file this Power of Attorney and the Form 10-K, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the New York Stock Exchange, granting unto said attorney-in-fact and agent full power and authority to do and perform each requisite and necessary act to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may do or cause to be done by virtue hereof.

Dated this 14th day of March, 2005.

Signature:

/s/ Peter A. Allen

Peter A. Allen

<u>EXHIBIT 24.2</u>

POWER OF ATTORNEY

ROBERT S. FALCONE

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, Robert S. Falcone, hereby constitutes and appoints Greggory C. Hammann or Rod W. Rice, severally and not jointly, his true and lawful attorney-in-fact and agent, for him and his name, place and stead, in any and all capacities, to sign the Form 10-K of Nautilus, Inc., a Washington corporation, for the fiscal year ended December 31, 2004, and any amendments or supplements thereto, and to file this Power of Attorney and the Form 10-K, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the New York Stock Exchange, granting unto said attorney-in-fact and agent full power and authority to do and perform each requisite and necessary act to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may do or cause to be done by virtue hereof.

Dated this 14th day of March, 2005.

Signature:

/s/ Robert S. Falcone

Robert S. Falcone

EXHIBIT 24.3

POWER OF ATTORNEY

FREDERICK T. HULL

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, Frederick T. Hull, hereby constitutes and appoints Greggory C. Hammann or Rod W. Rice, severally and not jointly, his true and lawful attorney-in-fact and agent, for him and his name, place and stead, in any and all capacities, to sign the Form 10-K of Nautilus, Inc., a Washington corporation, for the fiscal year ended December 31, 2004, and any amendments or supplements thereto, and to file this Power of Attorney and the Form 10-K, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the New York Stock Exchange, granting unto said attorney-in-fact and agent full power and authority to do and perform each requisite and necessary act to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may do or cause to be done by virtue hereof.

Dated this 14th day of March, 2005.

Signature:

/s/ Frederick T. Hull

Frederick T. Hull

EXHIBIT 24.4

POWER OF ATTORNEY

DONALD W. KEEBLE

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, Donald W. Keeble, hereby constitutes and appoints Greggory C. Hammann or Rod W. Rice, severally and not jointly, his true and lawful attorney-in-fact and agent, for him and his name, place and stead, in any and all capacities, to sign the Form 10-K of Nautilus Inc., a Washington corporation, for the fiscal year ended December 31, 2004, and any amendments or supplements thereto, and to file this Power of Attorney and the Form 10-K, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the New York Stock Exchange, granting unto said attorney-in-fact and agent full power and authority to do and perform each requisite and necessary act to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may do or cause to be done by virtue hereof.

Dated this 14th day of March, 2005.

Signature:

/s/ Donald W. Keeble

Donald W. Keeble

EXHIBIT 24.5

POWER OF ATTORNEY

PAUL F. LITTLE

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, Paul F. Little, hereby constitutes and appoints Greggory C. Hammann or Rod W. Rice, severally and not jointly, his true and lawful attorney-in-fact and agent, for him and his name, place and stead, in any and all capacities, to sign the Form 10-K of Nautilus Inc., a Washington corporation, for the fiscal year ended December 31, 2004, and any amendments or supplements thereto, and to file this Power of Attorney and the Form 10-K, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the New York Stock Exchange, granting unto said attorney-in-fact and agent full power and authority to do and perform each requisite and necessary act to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may do or cause to be done by virtue hereof.

Dated this 14th day of March, 2005.

Signature:

/s/ Paul F. Little

Paul F. Little

EXHIBIT 24.6

POWER OF ATTORNEY

DIANE L. NEAL

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, Diane L. Neal, hereby constitutes and appoints Greggory C. Hammann or Rod W. Rice, severally and not jointly, his true and lawful attorney-in-fact and agent, for him and his name, place and stead, in any and all capacities, to sign the Form 10-K of Nautilus Inc., a Washington corporation, for the fiscal year ended December 31, 2004, and any amendments or supplements thereto, and to file this Power of Attorney and the Form 10-K, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the New York Stock Exchange, granting unto said attorney-in-fact and agent full power and authority to do and perform each requisite and necessary act to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may do or cause to be done by virtue hereof.

Dated this 14th day of March, 2005.

Signature:

/s/ Diane L. Neal

Diane L. Neal

EXHIBIT 24.7

POWER OF ATTORNEY

JAMES M. WEBER

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, James M. Weber, hereby constitutes and appoints Greggory C. Hammann or Rod W. Rice, severally and not jointly, his true and lawful attorney-in-fact and agent, for him and his name, place and stead, in any and all capacities, to sign the Form 10-K of Nautilus Inc., a Washington corporation, for the fiscal year ended December 31, 2004, and any amendments or supplements thereto, and to file this Power of Attorney and the Form 10-K, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the New York Stock Exchange, granting unto said attorney-in-fact and agent full power and authority to do and perform each requisite and necessary act to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may do or cause to be done by virtue hereof.

Dated this 14th day of March, 2005.

Signature:

/s/ James M. Weber

James M. Weber

EXHIBIT 31.1

CERTIFICATION

I, Greggory C. Hammann, certify that:

1. I have reviewed this annual report on Form 10-K of Nautilus Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 14, 2005
Date

By: /s/ Greggory C. Hammann

Greggory C. Hammann,
Chief Executive Officer,
President and Chairman of the Board

EXHIBIT 31.2

CERTIFICATION

I, Rod W. Rice, certify that:

1. I have reviewed this annual report on Form 10-K of Nautilus, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 14, 2005 Date	By: /s/ Rod W. Rice
	Rod W. Rice, Chief Financial Officer and Secretary

EXHIBIT 32.1

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Nautilus, Inc., a Washington corporation (the “Company”), does hereby certify that:

To my knowledge, the Annual Report on Form 10-K for the year ended December 31, 2004 (the “Form 10-K”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 14, 2005 Date	By: /s/ Greggory C. Hammann
	Greggory C. Hammann, Chief Executive Officer, President and Chairman of the Board

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Nautilus Inc., a Washington corporation (the “Company”), does hereby certify that:

To my knowledge, the Annual Report on Form 10-K for the year ended December 31, 2004 (the “Form 10-K”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 14, 2005 Date	By: /s/ Rod W. Rice Rod W. Rice, Chief Financial Officer and Secretary

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.